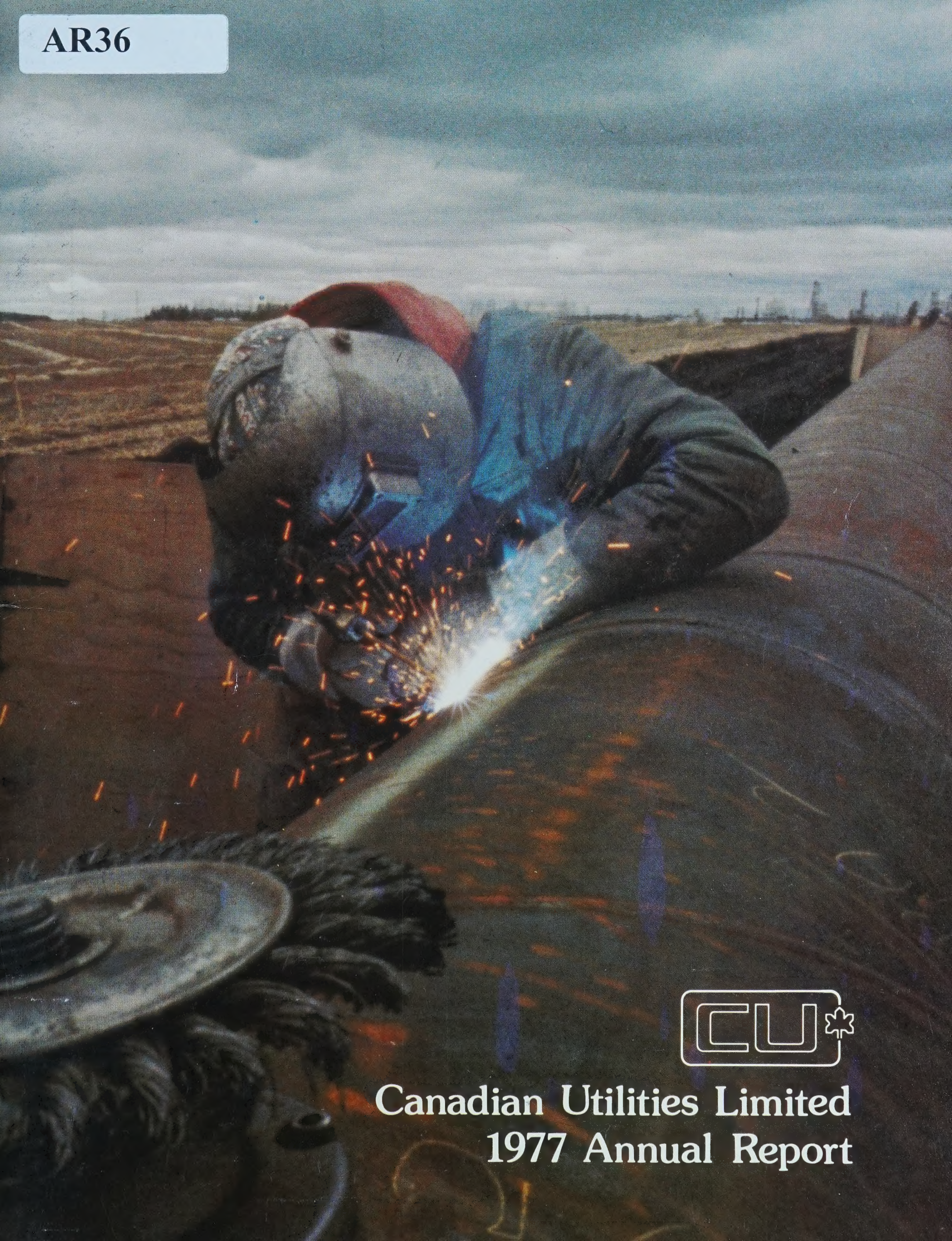


Canadian Utilities Limited
1977 Annual Report

PHOTOS

With the exception of the dragline picture (see description below) snapped by an Alberta Power employee, all the photos in this report were taken by Calgary photographer Walter Petrigo who visited company facilities during the summer of 1977.

On the front cover a welder performs his craft on a section of 24-inch diameter natural gas transmission line under construction near Edmonton. Above, the camera's fisheye lens encompasses Alberta Power's Battle River Generating Station and a sweep of neighboring prairie landscape. The opposite page shows 'Bigfoot', a $25 million dragline being erected at the coal field adjacent to Alberta Power's Battle River Generating Station.

The back cover captures the ultimate source of all the world's energy, the sun, silhouetting an Alberta Power lineman at work.

CONTENTS

HIGHLIGHTS

	1977	1976	Increase
Revenues (thousands)			
Natural gas	$318,707	$216,503	$102,204
Electric	93,934	78,133	15,801
Other	2,732	1,229	1,503
Total	415,373	295,865	119,508
Net earnings from operations (thousands)	35,168	27,491	7,677
Fully diluted earnings per common share*	1.61	1.55	.06
Dividends paid			
on common shares (thousands)	14,417	11,014	3,403
per share	.8525	.7650	.0875
Capital expenditures (thousands)	97,527	86,354	11,173
Customers at year-end			
Natural gas	428,438	400,474	27,964
Electric	106,855	99,629	7,226

*Does not include a non-recurring loss of $1,592,000 or $.09 per share in 1977.

CORPORATE STRUCTURE

Canadian Utilities Limited

ALBERTA POWER LIMITED. An Electric Utility. Subsidiaries: The Yukon Electrical Company Limited and Yukon Hydro Company Limited.

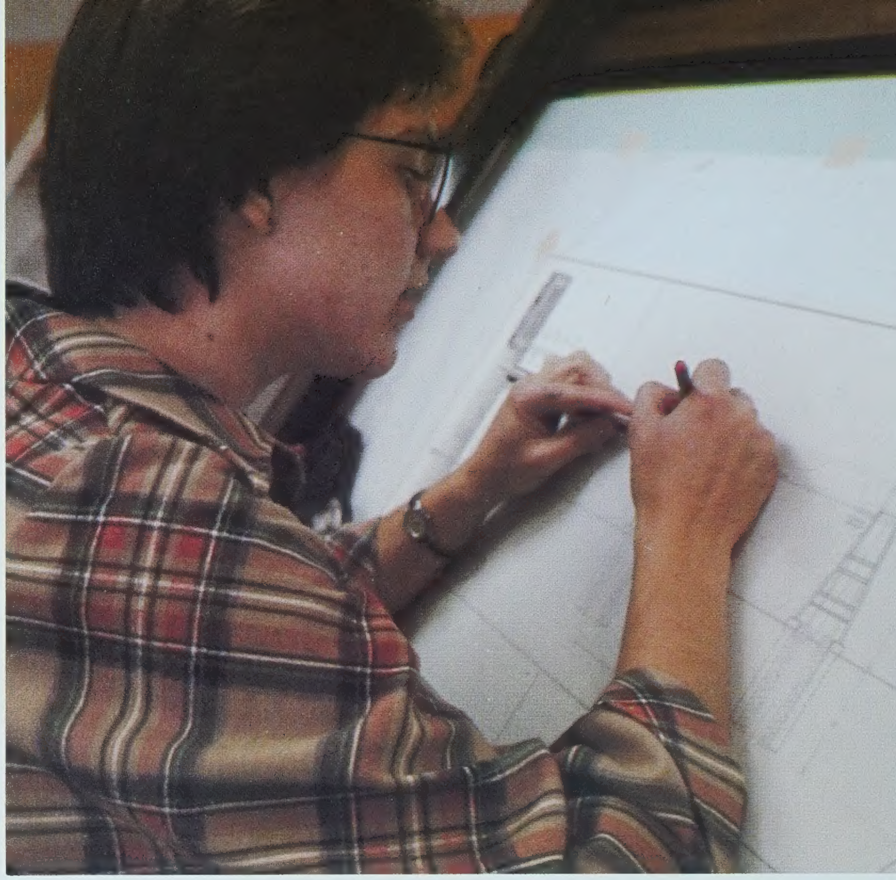
CANADIAN WESTERN NATURAL GAS COMPANY LIMITED. A Natural Gas Utility.

NORTHWESTERN UTILITIES LIMITED. A Natural Gas Utility. Subsidiary: Northland Utilities (B.C.) Limited.

CU ENGINEERING LIMITED. Engineering Services.

CU ETHANE LIMITED. Petrochemical Feedstocks.

CU RESOURCES LIMITED. Resource Development.



TO OUR SHAREHOLDERS

Alberta experienced the highest rate of economic growth of any of the provinces in 1977, and has excellent prospects of doing so again in 1978. An expanding population and new investment in industrial and commercial projects will provide a healthy environment for the continued growth of natural gas and electric services provided by the company.

The upsurge in oil and gas drilling activities in the province, following actions by the provincial and federal governments facilitating greater cash flow for such purposes, has now been reinforced by some encouraging discoveries. Concerns regarding gas supply to other parts of Canada have been given some welcome relief and Alberta's dependence on natural gas for more than 50 per cent of its energy supply seems even more secure, so long as the present safeguards continue to be observed prior to authorization of additional exports from the province.

Unfortunately, no segment of the economy has been more affected by the inflationary spiral of recent years than the electric and gas utility industries. The rapid and substantial increases in the price paid to producers for natural gas and rapidly escalating operating expenses have been accompanied by the added costs of providing for protection of the environment and the higher costs of new capital financings. To a degree, the company's natural gas customers in Alberta have been shielded from the total impact of these increases through a provincial rebate on natural gas supply costs that in 1977 amounted to $62 million. Also, by legislation, nearly all of the federal and provincial taxes on income paid by the utility companies are returned to the consumer of utility services.

Every effort has been made to keep the costs associated with meeting the increased demands of a rapidly growing service area under careful control. Where it has been necessary to request an increase in rates, applications have been made promptly to regulatory agencies. These agencies, of which the Alberta Public Utilities Board is of the greatest significance, have shown a continued understanding of the importance of balancing the interests of the consumer and the shareholder in determining the revenue requirements of the company's utility subsidiaries. Not all rates have increased. A decrease in the rates charged for electric utility service to residents of Fort McMurray was recorded in the year.

As a consequence of the Athabasca Tar Sands development, Fort McMurray has now become the largest community in our electric service territory. Formerly dependent on diesel powered generation, a landmark event was observed when the town was tied in to the provincial power grid during 1977. The community is also served with natural gas by the company.

Net earnings from operations increased four per cent in 1977 to $1.61 a common share, before providing for an extraordinary charge of nine cents a share. The outlay in support of an application by Canadian Arctic Gas Study Limited to construct a northern pipeline was charged to earnings as an extraordinary item following rejection of the application in the year by the National Energy Board.

Warmer than normal winter weather was again experienced in the year, causing the actual return on equity for the natural gas subsidiaries to fall short of the levels approved in regulatory decisions. Net earnings from operations attributable to common shares increased 17 per cent in 1977 to $27.7 million. However a higher average number of common shares in 1977 reflects the issue of shares late in 1976.

The fourth quarter common share dividend was increased from 21 cents to 22¼ cents providing an annual increase again consistent with the company's stated policy.

Capital expenditures of $98 million ($86 million in 1976) were at a record level as construction commenced on a 375-megawatt addition to the Battle River Generating Station. Completion of the $242 million unit is scheduled for 1981.

It is interesting to note the growth in our total plant and equipment in the last three years, and the additional capital that has been required to finance this growth. Gross plant has increased 45 per cent from $539 million at the close of 1974 to $780 million at the end of 1977. In this short three-year period, investors have provided $247 million of which $72 million has been invested by the company's common shareholders. The ability to attract new shareholders has been particularly gratifying. As a result of the broader distribution and greater interest by investors, the year 1977 saw trading activity in the common shares that was greater than the total trading of the previous two years combined.

In 1977, a private placement of $25 million of 9⅞ per cent debentures, 1977 Series was made in September and a $30 million issue of 7.30 per cent second preferred shares was completed in November.

The non-utility operations of the company represent a small part of the total to date. However, satisfactory progress in the year was made by CU Engineering Limited; and the plant being constructed by CU Ethane Limited and Dome Petroleum Limited is nearing completion with deliveries of ethane expected to commence before the end of the first half of 1978. CU Resources Limited carried out a successful drilling program to prove up reserves in the Buffalo Creek heavy oil field east of Viking, Alberta.

The Board of Directors was strengthened by the election of three new members at the annual shareholders' meeting on April 21 — Ronald D. Southern, President and Chief Executive Officer of ATCO Industries Ltd., Charles N. W. Woodward, Chairman of the Board and Chief Executive Officer of Woodward Stores Limited, and Kenneth A. Biggs, Senior Vice-President, Finance, of CU.

The progress of the company is due to the continued efforts of its qualified and dedicated employees. Their contribution deserves special praise.

On behalf of the Board of Directors

J. E. Maybin

J. E. Maybin, Chairman and Chief Executive Officer

E. W. King

E. W. King, President

February 9, 1978.

	Residential	Commercial	Industrial	Other	Total
'77	93,191 30%	71,236 23%	146,159 46%	5,599 1%	316,185 100%
'76	68,824 32%	52,132 24%	89,816 42%	3,344 2%	214,116 100%
'75	52,358 38%	37,027 27%	47,849 34%	2,313 1%	139,547 100%
'74	36,503 41%	24,245 27%	27,043 31%	1,097 1%	88,888 100%
'73	34,034 42%	22,511 28%	22,888 29%	938 1%	80,371 100%

	Residential	Commercial	Industrial	Other	Total
'77	67,288 23%	66,653 23%	147,918 52%	6,118 2%	287,977 100%
'76	64,289 25%	63,273 24%	125,258 49%	5,660 2%	258,480 100%
'75	67,317 27%	67,049 27%	109,985 44%	6,126 2%	250,477 100%
'74	62,268 26%	63,025 26%	106,689 45%	6,215 3%	238,197 100%
'73	60,383 26%	60,299 25%	109,975 46%	5,941 3%	236,598 100%

	Residential	Commercial	Industrial & Other	Total
'77	386,691 90.3%	41,129 9.6%	615 0.1%	428,438 100%
'76	361,393 90.2%	38,432 9.6%	649 0.2%	400,474 100%
'75	336,064 90.0%	36,648 9.8%	542 0.2%	373,254 100%
'74	317,535 89.9%	35,286 10.0%	510 0.1%	353,331 100%
'73	301,084 89.7%	33,874 10.1%	537 0.2%	335,495 100%

In the chart above natural gas revenues include only those resulting directly from the sale of natural gas. Natural gas revenues per financial statement include other miscellaneous operating revenues.

Both of the company's major gas utility subsidiaries conduct extensive drilling programs in search of new reserves of natural gas. Gas produced from company-owned wells is used primarily to meet peak requirements.

NATURAL GAS OPERATIONS

The company's two main natural gas utility subsidiaries are Canadian Western Natural Gas Company Limited, serving the southern half of Alberta, including Calgary and Lethbridge, and Northwestern Utilities Limited providing service to Edmonton and the north-central region of the province. Together the two companies supply more than 70 per cent of the natural gas consumed in Alberta. A Northwestern Utilities subsidiary, Northland Utilities (B.C.) Limited, serves Dawson Creek and district in northeastern British Columbia.

At year-end the companies had a combined total of 428,438 customers in 260 communities and in rural areas. A record 27,964 new customers were connected during the year. Canadian Western welcomed its 200,000th customer and three additional communities, Carseland, Indus and Langdon.

Sales

Natural gas sales volume rose 11 per cent over the previous year to 288 billion cubic feet. Industrial consumption, which in 1977 accounted for over one-half of total sales, was up 18 per cent over 1976, primarily because of two new customers, Canadian Fertilizers Limited in Medicine Hat and Cominco Ltd. in Carseland.

Offsetting to some extent the growth in sales volume that would be expected from an increase in customer numbers and expanded industrial activity, was a decline in unit sales to residential and commercial customers. In terms of degree days, a measure of space heating requirements, 1977 was warmer than normal (see page 7). Also, an increasing portion of new housing in the province is made up of row housing or mobile homes which, on the average, have a lower gas usage than has been experienced historically for residential customers. Moreover, the rapidly increasing cost of gas has made consumers more conscious of energy conservation and has contributed to a drop in gas usage.

	Billions of Cubic Feet	Per Cent of Total
Industrial	148.0	51.4
Residential	66.8	23.2
Commercial	66.2	23.0
Other	7.0	2.4
Total	288.0	100.0

Rates

Revenues from natural gas sales rose to $318.7 million in 1977 from $216.5 million the previous year. The increase is largely the result of rate increases allowed by the Alberta Public Utilities Board to cover rising gas supply costs. The chart that follows shows how gas supply costs and other expense items have grown in comparison to gas operations' contribution to earnings.

Although 1977 revenues were $236.7 million greater than the $82 million in 1973, all but $4.7 million of this increase was required to cover increased costs of operation, including interest expense and dividends on preferred shares. An increase in earnings attributable to common shares during this period has been required to provide a reasonable return on the increased investment by common shareholders.

Gas Operations Earnings Contribution

	1977	1976	1975	1974	1973	Annual Growth Rate 1973-1977
	(millions of dollars)					(per cent)
Natural gas revenues	**318.7**	216.5	141.8	91.2	82.0	40.4
Operating expenses						
Natural gas supply	**221.2**	134.7	70.8	40.2	35.9	
Operating and maintenance	**42.8**	36.3	29.1	21.2	18.3	
Taxes — other than income	**18.1**	14.3	9.6	6.2	5.4	
Depreciation	**7.2**	6.7	6.9	6.5	6.1	
	289.3	192.0	116.4	74.1	65.7	44.9
Operating income	**29.4**	24.5	25.4	17.1	16.3	15.9
Other income deductions	**8.0**	6.7	7.6	6.5	5.2	
Income taxes	**6.4**	5.3	6.8	2.3	3.2	
	14.4	12.0	14.4	8.8	8.4	14.4
Net earnings	**15.0**	12.5	11.0	8.3	7.9	17.4
Preferred dividend requirements	**3.3**	1.4	1.4	.9	.9	
Balance attributable to common shares	**11.7**	11.1	9.6	7.4	7.0	13.7
Mid-year common equity investment	**75.5**	68.3	60.2	55.4	53.5	9.0

Canadian Western submitted applications to the Board for increased rates to be effective January 1, April 1 and August 1, 1977. The January increase was necessary to meet continued inflationary pressures on the costs of wages, materials and supplies, and higher costs of financing capital expenditures. The April and August increases were needed to recover the increased costs of gas purchased. This increase is net of the rebate received under the provincial government's Natural Gas Price Protection Plan.

The Board confirmed the revenue requirements of $150.8 million requested in the initial application and also approved the April and August rate adjustments.

During the year Northwestern Utilities submitted two applications for increased rates to be effective May 1 and August 1. Both submissions were in response to increases in the price of natural gas; however, the August adjustment also covered the higher costs of wages, materials and supplies, peak-load gas purchases, royalty expenses on company-owned production as well as higher financing costs. Interim approval was granted in each case and a final decision on 1977 rates is expected early in 1978.

Late in 1977 both companies made application to the Board for a change in cost allocation and rate design procedures to permit a common rate for each class of customer served, regardless of location in the companies' market areas. Hearings on this issue are scheduled for early 1978. The companies made several other submissions to the Public Utilities Board and the Energy Resources Conservation Board on various matters of concern to the companies and their customers. Among them was a request for a change in the treatment of income taxes; a response to an inquiry called with respect to the regulation of Alberta Gas Trunk Line Company Limited; and others in connection with export hearings and Alberta's 30-year energy requirement hearing.

Since 1974 the Alberta consumer has been shielded from the full impact of rapid natural gas price increases by a provincial government rebate plan, now known as The Natural Gas Price Protection Plan, under which the province pays the difference between the field price and a 'support price' set by the government. At December 31, 1977 the field price was $1.09 a thousand cubic feet and the support price was 73.75 cents a thousand cubic feet. The Alberta government budgeted $105 million for the plan in 1977.

Gas Supply

In 1977, the cost of gas supply, by far the companies' largest expense item, was $221.2 million compared to $134.7 million in 1976. (These figures do not include gas supply costs shielded by the provincial government under The Natural Gas Price Protection Plan.)

The gas utilities' chief sources of natural gas are oil fields where solution gas, extracted in conjunction with oil production, is gathered and processed; gas fields from which wet gas is gathered and centrally processed before delivery to pipelines; and dry gas fields from which gas can be introduced almost directly into pipelines. Volumes of gas are also purchased from export companies and other natural gas pipeline companies. In addition, company-owned gas properties are a significant source of supply for meeting peak requirements.

As gas producers, Canadian Western and Northwestern Utilities participate in border-flow-back funds. Under the

border-flow-back program, which is the result of an agreement between the provincial and federal governments, all Alberta gas producers receive a pro rata share of the extra revenues generated by the differential in price between gas exported to the U.S. and that marketed in Canada. The Public Utilities Board has agreed in principle with the companies that these funds may be used to finance unsuccessful exploration for natural gas. During 1977, Canadian Western took part in the drilling of 13 wells, all of which were successful; Northwestern Utilities was involved in the drilling of 40 wells of which 28 were successful. Total cost of the drilling program was $7.3 million. The costs of the unsuccessful wells will be charged against border-flow-back, subject to the approval of the Public Utilities Board.

Company geologists' latest estimates indicate that the utilities owned 736 billion cubic feet of gas and had under firm contract another 3,205 billion cubic feet. An additional 2,992 billion cubic feet will be available for future purchase from fields where estimated gas producing life exceeds the term of the companies' existing gas purchase contracts. Agreements also exist which enable the utilities to call upon major gas exporters for very large quantities of base-load and peak-load gas.

New Construction

Capital expenditures for the gas utilities in 1977 totalled $38.8 million compared to $39.4 million in 1976.

Canadian Western carried out a number of transmission system projects including the installation of 14 miles of six-inch line between Fort Macleod and Granum; replacement of 9.5 miles of 16-inch line between Monarch and west Lethbridge and replacement of two miles of 16-inch main line within Calgary's city limits to accommodate construction of new roads and subdivisions.

Northwestern Utilities completed the final 11 miles of its 60-mile, 24-inch transmission line from Homeglen-Rimbey to Edmonton. This line terminates at the Dome Petroleum/CU Ethane plant (see Other Operations, page 12) where ethane and other hydrocarbons will be stripped before the still methane-rich gas is fed into Northwestern's distribution system.

Other capital projects were undertaken to expand the distribution system to accommodate the record number of new customers. There were also additions to service facilities and equipment.

Market Growth

Alberta's population has been growing at a rate of 2.3 per cent annually in recent years and is now about 1.9 million. While growth in the Calgary and Edmonton metropolitan areas has approximately equalled the provincial rate, in the smaller urban communities populations have increased 4.3 per cent. It has been a policy of the Alberta government to encourage growth in smaller urban centres, partly by decentralizing some of its own operations.

In the principal communities within the gas utilities' service territories — Calgary, Edmonton, Lethbridge, Red Deer, Fort McMurray and Grande Prairie — building permits with a total value of $1.7 billion were issued during 1977, an increase of 31 per cent over 1976.

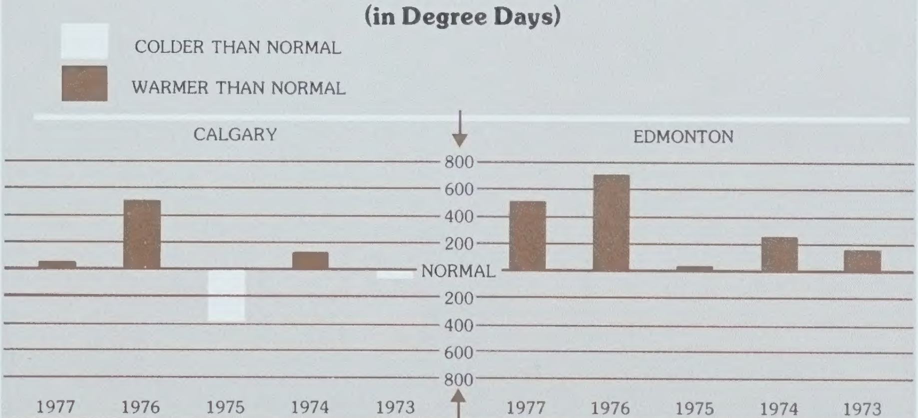
Construction valued at $820 million was initiated in Calgary, up 84 per cent over the previous year. The number of permits for office buildings was double that of 1976.

Edmonton issued permits for $628 million in new projects, up from $618 million in 1976. The Edmonton figures do not include the value of work in progress on Commonwealth Games facilities or the city's rapid transit system. The Commonwealth Games are to take place in Edmonton, August 3 to 12, 1978.

With the Syncrude Tar Sands extraction plant nearing completion, construction activity in Fort McMurray declined to $72 million from the 1976 total of $89.7 million.

Lethbridge issued permits valued at $57 million, down from $60.8 million a year earlier. Activity in Red Deer increased 37 per cent to $82 million. In Grande Prairie, permits were valued at $25.8 million compared to $16.1 million in 1976.

Temperature Variations From Normal (in Degree Days)



Calgary — Normal — 5,352 Degree Days

Year	Degree Days	Colder or Warmer ( ) Than Normal — Number	Per cent
1977 —	5,289	(63)	(1.2)
1976 —	4,885	(494)	(9.2)
1975 —	5,750	397	7.4
1974 —	5,230	(122)	(2.3)
1973 —	5,428	76	1.4

Edmonton — Normal — 5,600 Degree Days

Year	Degree Days	Colder or Warmer ( ) Than Normal — Number	Per cent
1977 —	5,124	(465)	(8.5)
1976 —	4,891	(709)	(12.7)
1975 —	5,555	(45)	(0.8)
1974 —	5,492	(218)	(4.0)
1973 —	5,538	(172)	(3.1)

DEGREE DAYS: The number of degrees by which daily mean temperature falls below 18 degrees C. One degree day is counted for each degree of deficiency for each day on which such a deficiency occurs. For example, if the mean temperature for a day was 10 degrees C, then there were 8 degree days during that 24 hour period.

	Residential	Commercial	Industrial	REA & Other	Total
'77	20,035 22%	25,558 29%	33,112 37%	10,568 12%	89,273 100%
'76	16,677 22%	22,448 30%	27,514 36%	9,389 12%	76,028 100%
'75	12,309 21%	16,971 30%	21,062 37%	6,953 12%	57,295 100%
'74	9,632 21%	13,586 30%	16,759 36%	5,935 13%	45,912 100%
'73	8,203 22%	12,841 34%	13,459 35%	3,401 9%	37,904 100%

In the chart above electric revenues include only those resulting directly from the sale of electric energy. Electric revenues per financial statements include other miscellaneous operating revenues.

	Residential	Commercial	Industrial	REA & Other	Total
'77	438 19%	430 18%	1,206 51%	284 12%	2,358 100%
'76	402 18%	400 18%	1,100 51%	280 13%	2,182 100%
'75	368 18%	369 18%	1,029 51%	259 13%	2,025 100%
'74	323 17%	332 17%	1,005 52%	260 14%	1,920 100%
'73	290 16%	320 18%	978 55%	195 11%	1,783 100%

	Residential	Commercial	Industrial	REA & Other	Total
'77	66,287 62%	14,614 14%	3,854 4%	22,100 20%	106,855 100%
'76	61,008 61%	14,120 14%	3,262 3%	21,239 22%	99,629 100%
'75	56,673 60%	13,574 15%	3,057 3%	20,736 22%	94,040 100%
'74	52,406 59%	13,354 15%	2,895 3%	20,167 23%	88,822 100%
'73	49,370 58%	13,273 16%	2,536 3%	19,419 23%	84,598 100%

Capacity of Alberta Power's Battle River Generating Station will be more than doubled to 740 megawatts with the commissioning of Unit #5 scheduled for 1981.

ELECTRIC OPERATIONS

The year 1977 marked the 50th anniversary of the company's beginnings in the electric utility business in Alberta. That activity is now carried out by Alberta Power Limited, a wholly owned subsidiary of Canadian Utilities Limited.

Alberta Power serves 362 communities in east-central and northern Alberta and five communities in the Northwest Territories, including the town of Hay River. A further 18 communities in the Yukon are served by an Alberta Power subsidiary, The Yukon Electrical Company Limited. A record 7,226 new customers were added in 1977 bringing the total at year-end to 106,855. included in the total were 21,774 farm customers of whom 20,817 were members of 169 Rural Electrification Associations.

Energy sales rose 8.1 per cent to 2,358 million kilowatt hours from 2,182 million kilowatt hours in 1976. The 1977 figure does not include 228 million kilowatt hours in spot sales to the City of Edmonton. Peak load was 524 megawatts compared to 455 megawatts the previous year.

Net Fixed Assets (Millions of dollars)

Rates

Electric revenues were $93.9 million, up from $78.1 million a year earlier. A significant factor in revenue growth continues to be rate increases which are essential to meet rises in operating costs resulting from inflation, and to ensure earnings are sufficient to attract capital for needed expansion.

The chart on page 10 indicates the rapid growth experienced in the last five years. In the period from 1973 to 1977 revenues have increased by $55.6 million or 145 per cent. The growth in investment required from common shareholders has been accompanied by a growth in earnings attributable to common shares, which indicates that the regulatory process has effectively provided the minimum revenues required to attract the capital needed for growth of this magnitude.

The Alberta Public Utilities Board permitted a 20 per cent interim rate increase effective August 1. On January 5, 1978 a final decision on the company's 1977 rate application was received which confirmed the amount proposed by the company as a fair return on rate base. Implied in the decision is a 14¼ per cent return on common equity. The interim rates produced greater revenues in 1977 than required to provide the approved return, and the difference of $1.4 million is being refunded to customers in 1978.

As noted in the Financial Review, the Board also approved a company request for a change in the method of charging depreciation of utility assets to more equitably assign the charge to periods in which assets are in service.

In the Yukon new interim rates were introduced on August 1 to offset increased labor costs as well as increases in the costs of materials and services. A 21 per cent rate increase was implemented in the Northwest Territories in January, 1977.

Market Growth

The aggregate population of the areas served by Alberta Power was about 300,000 at the end of 1977. During the year the population of Fort McMurray

Electric Operations Earnings Contribution

	1977	1976	1975	1974	1973	Annual Growth Rate 1973-1977
	(millions of dollars)					(per cent)
Electric revenues	**93.9**	78.1	57.9	46.3	38.3	25.1
Operating expenses						
Operating and maintenance	**42.3**	35.4	27.0	22.2	16.3	
Taxes — other than income	**3.7**	2.7	2.2	1.8	1.4	
Depreciation	**11.4**	8.8	6.3	6.4	4.9	
	57.4	46.9	35.5	30.4	22.6	26.2
Operating income	**36.5**	31.2	22.4	15.9	15.7	23.5
Other income deductions	**10.2**	12.3	7.2	8.0	7.0	
Income taxes	**5.8**	3.1	1.6	.1	1.3	
	16.0	15.4	8.8	8.1	8.3	17.8
Net earnings	**20.5**	15.8	13.6	7.8	7.4	29.0
Preferred dividend requirements	**5.1**	3.0	2.9	.6	.6	
Balance attributable to common shares	**15.4**	12.8	10.7	7.2	6.8	22.6
Mid-year common equity investment	**98.8**	84.8	65.3	55.9	51.6	17.6

surpassed 20,000 and the town became the largest community in the company's service territory. The $2.15 billion Syncrude plant, which has been largely responsible for Fort McMurray's rapid growth, is to be officially opened in September, 1978. Syncrude's permanent staff in Fort McMurray quadrupled in 1977 to 2,000.

Construction activity, as measured by the value of building permits in the eight largest communities served by Alberta Power, continued at a brisk pace in 1977, although moderately slower than the previous record year. Led by Fort McMurray, Lloydminster and Grande Prairie, the eight communities issued permits worth $139 million compared to $147 million in 1976.

New industrial installations connected to the system in 1977 included a water treatment plant operated by Home Oil Company Limited in Swan Hills and a Swanson Lumber Co. Ltd. sawmill at High Level.

During 1977, service franchises were renewed in 22 communities including Drumheller, Vegreville and Peace River. Most franchise agreements extend for 10 years.

The following table shows 1977 electric sales to the various customer categories:

	Thousands of Kilowatt Hours	Per Cent of Total
Industrial	1,205,733	51
Commercial	430,193	18
Residential	437,563	19
REA and others	284,304	12
*Total	2,357,793	100

*does not include 228 million kilowatt hours sold to other utilities.

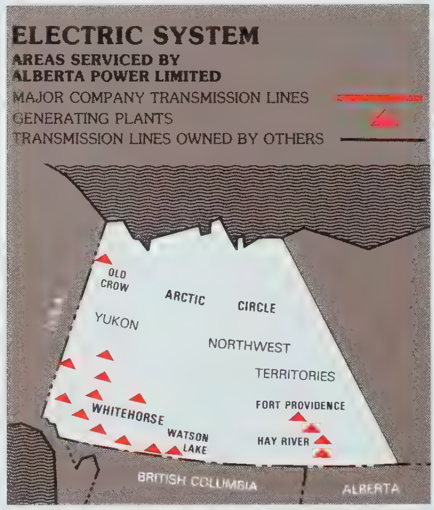
Further developments taking place or planned for the oil sands and heavy oil areas of Alberta hold major potential for electric energy load growth in the company's service territories. In November, 1977 Imperial Oil Limited applied to the Energy Resources Conservation Board to construct an in situ plant that would produce between 120,000 and 145,000 barrels of upgraded oil a day from heavy oil deposits near Cold Lake. Shell Canada Limited has announced plans for a new development in the Athabasca Tar Sands.

The proposed natural gas pipeline to follow the course of the Alaska Highway is expected to bring major economic benefits which would have a positive effect on the company's operations in Alberta and the Yukon.

Since oil well and pipeline pumping is an important segment of Alberta Power's market, the company is encouraged by the record levels of conventional oil and gas exploration in Alberta and the successes achieved to date.

New Construction

The company's expenditures for additions to property, plant and equipment during the year were $44.1



million. Of this total $10.4 million was towards the purchase of a $25 million dragline for mining the Battle River coalfield. The dragline, which has a bucket capacity of 58 cubic yards, is scheduled to commence operation in the spring of 1978.

Another $5.5 million was spent on the initial stages of the latest addition to the Battle River Generating Station. Site preparation began in June for the $242 million Unit #5 which will more than double the station's generating capacity to 740 megawatts. The new unit is scheduled to be commissioned in 1981.

A 175-mile transmission line connecting the provincial power grid at Mitsue to the Syncrude plant at Mildred Lake was converted to 240 kilovolts from 144 kilovolts. Also during the year, Fort McMurray was linked to the provincial grid, resulting in a decrease in rates for area residents.

An 80-mile, 144-kilovolt line from the company's Sturgeon Lake plant near Valleyview to the Sarah Lake substation in the Swan Hills area was commissioned in June. Another 52 miles of 144-kilovolt line was completed from the substation near Manning to Keg River near High Level. Two more 144-kilovolt lines are under construction to improve service to the communities of Vegreville, Bonnyville and Lloydminster. Altogether $11.8 million was expended on transmission line projects. A further $8.5 million was used for the construction or upgrading of various distribution systems.

Plans are proceeding for the construction of a two-unit 750-megawatt thermal generating station at Sheerness, near Hanna. The formal public hearing on the proposed station will be scheduled by the Alberta Energy Resources Conservation Board in April or May and a final decision from the provincial cabinet is expected late this year or early 1979. Commissioning date of this plant is dependent upon provincial load growth and other power developments in the province.

Large power projects like Sheerness require integrated planning and close cooperation among all Alberta electrical utilities to ensure that the future needs of Albertans will be met with the optimum utilization of capital, fuel and human resources. This coordination is being achieved through the Electric Utility Planning Council in which the company is an active participant.

Alberta is fortunate in having plentiful supplies of accessible coal to fuel thermal power plants. This abundance gives Alberta a period of grace in which to research and develop alternative energy sources for the inevitable time when conventional fuels will be exhausted.

Alberta Power's Mildred Lake substation (foreground) is the terminus of a 240-kilovolt transmission line connecting the Fort McMurray area with the provincial power grid. In the background is the Syncrude plant which will be officially opened in September.



OTHER OPERATIONS

CU Engineering Limited

CU Engineering is a subsidiary established in 1975 to seek opportunities in design engineering, project management and system and capacity evaluation for natural gas and electrical power delivery systems. By the end of 1977 the company employed a permanent staff of 34, supplemented by additional expertise available on a project basis from other Canadian Utilities' subsidiaries.

During the year the company completed engineering services in connection with the design and construction of a 170-mile natural gas pipeline from gas fields in northeastern Alberta to the Syncrude plant near Fort McMurray. CU Engineering also has a contract for the operation and maintenance of this line. Additionally, the company performed work for a number of municipalities and rural gas co-ops.

Among its current projects, CU Engineering is engaged in further gas pipeline design, an assignment from the Alberta government to convert existing utility plans to the metric system, and an electric power study for the federal and Alberta governments.

The range of company activity has recently broadened to include water system and sewer design and construction management, and assisting clients in the preparation of submissions to regulatory bodies.

CU Ethane Limited

CU Ethane was formed in 1976 to participate in a joint venture with Dome Petroleum Limited to build and operate a 20,000 barrel-a-day ethane extraction plant in Edmonton. Construction began in February, 1977 and is proceeding on schedule towards a May, 1978 commissioning date. Ethane will be extracted from natural gas flowing into Edmonton through a Northwestern Utilities' transmission line.

The $40 million facility is an integral part of the $1.3 billion petrochemical industry expansion currently taking place in Alberta. Approximately 50 per cent of the ethane produced at the plant will be used as feedstock for the manufacture of ethylene in Alberta. The other 50 per cent will be exported via the Cochin pipeline for sale in Eastern Canada and the United States.

CU Resources Limited

Late in 1976 Canadian Utilities created a new subsidiary, CU Resources Limited, to hold and develop certain non-utility resource properties then owned by Northwestern Utilities and Canadian Western Natural Gas. During 1977, CU Resources completed an 18-well drilling program on the properties located in the Buffalo Creek heavy oil field near Viking, Alberta. Production from the 17 wells that proved successful is about 400 barrels a day.

Canadian Utilities and subsidiaries employed 2,841 persons on a full-time basis at the end of 1977. Of this total 732, or 26 per cent, have achieved more than 20 years of service.

FINANCIAL REVIEW

Earnings Rise 17 Per Cent

Operating earnings attributable to common shares in 1977 were $27.7 million, an increase of 17 per cent over 1976. The average number of common shares rose 11 per cent to 17.3 million shares with an issue of common shares to the Canadian public in November, 1976. On a per share basis, operating earnings attributable to common shares were $1.61 in 1977, an increase of four per cent over the preceding year. The total outlay, net of income tax, made in earlier years in support of an application by Canadian Arctic Gas Study Limited to construct a northern natural gas pipeline was charged to income as an extraordinary item and represented nine cents per common share or $1.6 million. This application was rejected by the National Energy Board during the year.

Abnormally warm winter weather was a significant limiting factor on earnings performance in 1977, as was the case in 1976. The actual return on equity recorded by the natural gas utility subsidiaries was therefore below the levels approved in regulatory decisions. The Ten-Year Growth Summary on pages 30 and 31 provides data for the first time on 'degree days' recorded in Edmonton and Calgary as compared to normal.

The Operations sections of this report also provide for the first time a summary of earnings attributable to common shares by segment of the company. As the following table shows, strong sustained growth has been recorded in the past five years. A

continuation of this growth pattern is expected over the next five years.

	Electric	Gas	Other	Total
	(millions of dollars)			
1973	6.8	7.0	—	13.8
1974	7.2	7.4	0.1	14.7
1975	10.7	9.6	0.2	20.5
1976	12.8	11.1	0.1	24.0
1977	15.4	11.7	0.6	27.7
	(per cent)			
Annual growth rate 1973 to 1977	22.7	13.7		19.0

In the five years from 1973 to 1977 inclusive, operating earnings per common share had an annual growth rate of 12.9 per cent.

Common Share Dividends Continue to Increase

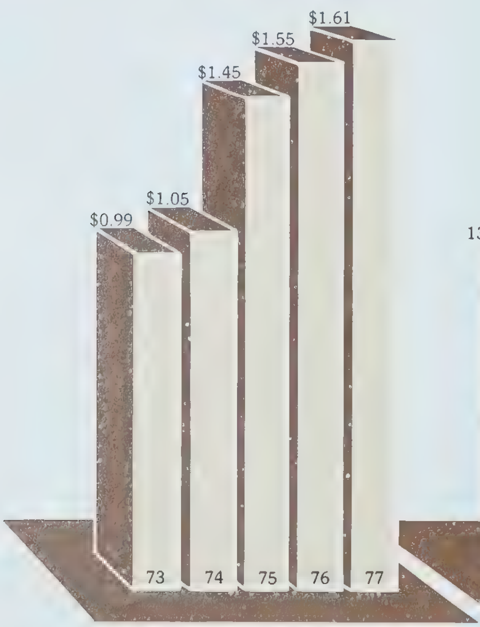
Dividends paid on the common stock totalled $14.4 million, an increase of 31 per cent in 1977, which reflects the greater number of shares outstanding and an increase in the dividend rate from 18½ cents to 21 cents in the fourth quarter of 1976 and to 22¼ cents in the fourth quarter of 1977. The increases in the dividend were approved by the Anti-Inflation Board.

The company continues with the policy of increasing the dividend during each year so that the annualized amount of the final quarterly dividend represents at least 50 per cent of the net earnings from operations attributable to common shareholders.

High Level of Regulatory Activity in 1977

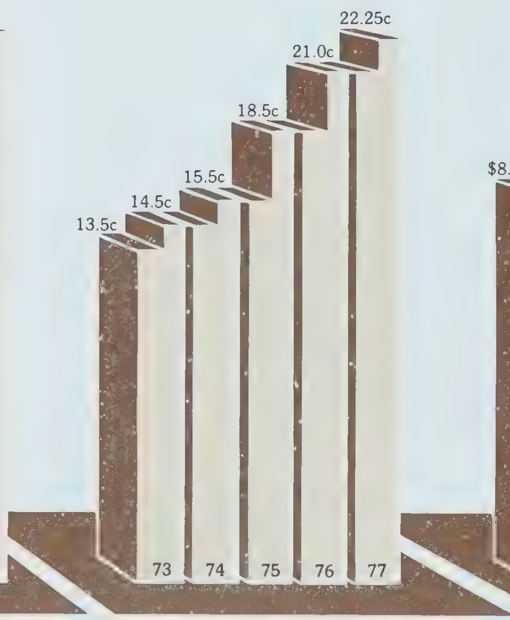
The continuing upward movement in cost of natural gas purchased by the company and escalating operating and financial expenses have required new applications for increased revenues by each of the regulated utility subsidiary companies. The current status of the major applications is as follows:

	Date	Test Year	Rate Base	Return on Rate Base	Implied Equity Rate of Return
			(millions of dollars)	(per cent)	(per cent)
Alberta Power Limited latest final order	Jan./78	1977	291.1	10.3	14.2
		1978	317.2	10.3	14.2
Canadian Western Natural Gas Company Limited latest final order	Aug./77	1977	103.8	10.8	14.5
Northwestern Utilities Limited latest final order	Apr./77	1976	117.5	10.4	14.6
latest interim order	Aug./77	1977	132.4	10.7	14.5



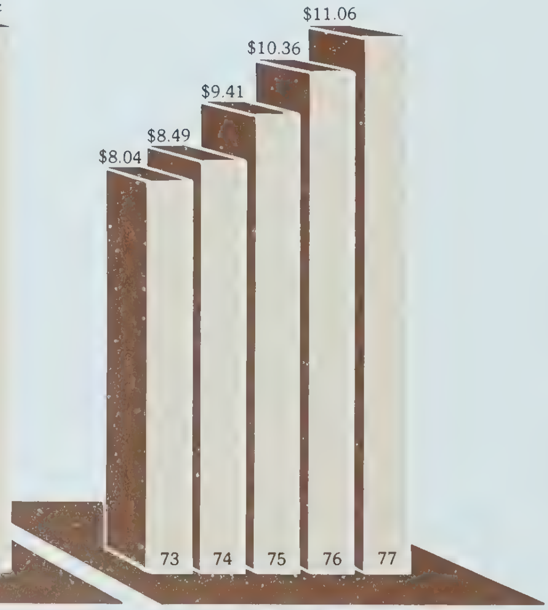
Earnings Per Share
(Before extraordinary items fully diluted)

Annual Growth Rate - 1973 to 1977: 12.9%



Dividends Per Common Share
(Quarterly rate)

Annual Growth Rate — 1973 (First Quarter) to 1977 (Fourth Quarter): 13.3%



Common Shareholders' Equity Per Share
(Year-end fully diluted basis)

Excludes $8 million franchise and gas rights as per regulatory practice

Annual Growth Rate - 1973 to 1977: 8.3%

Each of the 1977 applications requested approval of a change in the method of determining depreciation charges. Approval of this change, which more correctly associates this charge with each of the years in which assets are in service, was granted in the two final decisions received. The change is expected to increase significantly the internal cash flow available in 1978 to finance the growing capital expenditure program. The two final decisions confirmed the requested equity rate of return. In the case of Alberta Power Limited, a refund of $1.4 million on revenues obtained through application of interim refundable rates was ordered as the requested return would otherwise be exceeded.

Earlier in the year, a final decision was received by Canadian Western that required a reversal in 1977 of $0.4 million profit on sale of property made and recorded in 1976. This caused a minor overstatement of 1976 operating income and a corresponding understatement of current year performance.

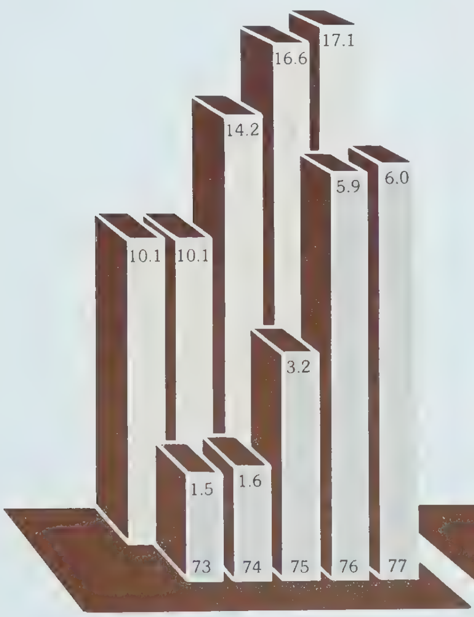
The Public Utilities Board of Alberta held its first generic hearing before which a number of the regulated utilities were provided with the opportunity to present testimony regarding a single subject of common interest. The topic was the appropriate regulatory treatment of the income tax to be included in cost of service. This hearing resulted from an application by Alberta Power Limited to change to a 'taxes-paid' basis which would essentially eliminate timing differences between determining accounting pre-tax earnings and the calculation of taxable income. The change was requested to promote equity in the treatment of customers over the life of each asset in service. Another benefit of the change would be increased debt interest coverages and therefore an improved rating of the debt securities of the company.

Record Year for Capital Expenditures

Capital expenditures of $97.5 million in 1977 were 13 per cent above the $86.4 million in 1976 but somewhat below the level forecast for the year. Construction commenced on the 375-megawatt Unit #5 at the Alberta Power Limited Battle River Generating Station. The unit will involve a total outlay of $242 million and is scheduled for completion in 1981. Erection of a $25 million dragline for coal operations associated with this expansion was nearly completed by year end.

The 1978 capital program is expected to total $114 million. In the years 1979 to 1983 an average annual expenditure of $138 million is forecast.

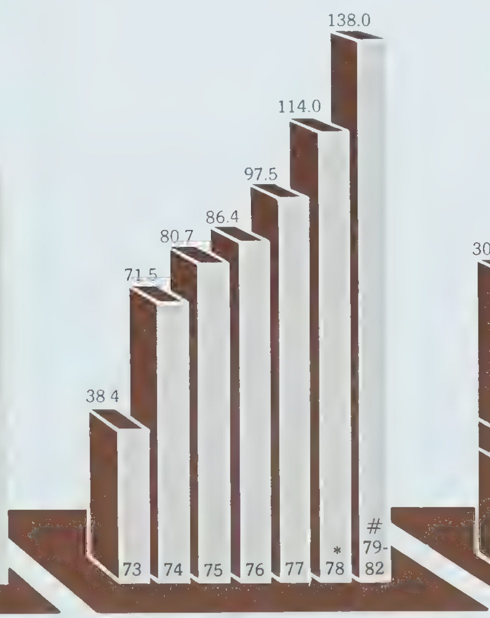
Excluded from this forecast is spending on the Sheerness thermal generating station. The timing for this project, to include two 375-megawatt units at a cost of $775 million, will be determined by hearings conducted by the Alberta Energy Resources Conservation Board during 1978 on this and other applications involving generation capacity required in the province in the 1980's.



Common Shares Outstanding and Number of Shareholders as at December 31, 1977

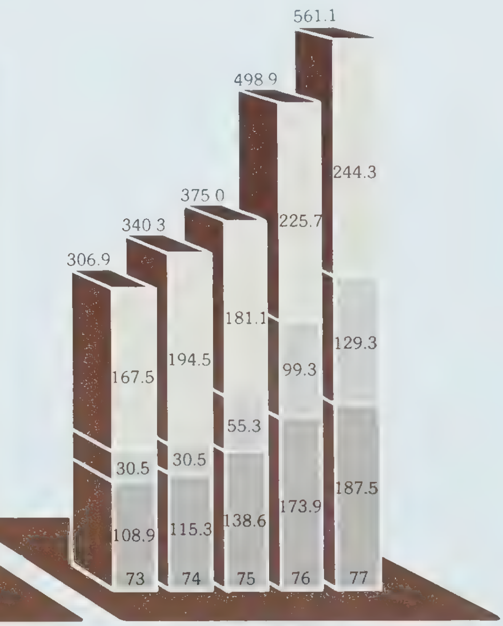
Number of shares outstanding in millions

Number of shareholders in thousands



Capital Program
(Millions of dollars)

*Estimated capital expenditures
#Estimated average annual capital expenditures



Invested Capital
(Millions of dollars)

Notes payable and long-term debt

Preferred equity including minority interest

Common equity including $1.25 convertible preferred

New Financings in 1977

A private placement of $25 million 9⅞ per cent debentures with a maturity date of September, 2002 was completed in September and a $30 million issue of 7.30 per cent second preferred shares was made in November in a program designed to bring the capital structure of the company closer to long-term target levels. At the close of the year, long-term debt represented 44 per cent, preferred shares 23 per cent and common equity 33 per cent of the total capital of the firm.

Record Trading in Common Shares

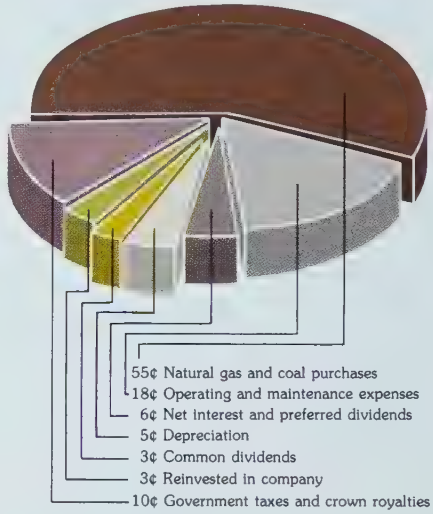
Accompanying the growth in assets employed in the company has been an increase in the common shares issued. A conscious effort has been made in the last few years to improve the marketability of the shares by ensuring an adequate supply was available to trade on the exchanges in Canada and to see that the issues of additional shares were well distributed to the public. The following summary indicates the extent to which this objective has been achieved. The data excludes the shares held by IU International, the major shareholder of Canadian Utilities Limited.

	Common Shares Outstanding at Year-End	Number of Common Shares Traded in the Year	Market Value at Year-End of Common Shares Outstanding
	(millions of shares)		(millions of dollars)
1974	1.4	0.2	10.2
1975	3.3	0.5	38.0
1976	5.7	0.7	82.5
1977	6.2	1.2	95.0

All permanent employees were offered an opportunity to participate in a share purchase plan under which common shares could be purchased at $12.26 per share. Employees pay for the shares by payroll deduction over a two-year period until the exercise date, December 31, 1979.

Options granted under this plan provided for the purchase of 106,035 shares.

Where the Sales Dollar Went



A Canadian Western Natural Gas serviceman carries out a routine curb box safety check surrounded by gleaming new buildings in Calgary. Canadian Western, which serves southern Alberta, added its 200,000th customer during the year.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1977 with comparative figures for 1976

	Thousands 1977	1976
Natural Gas Revenues	**$318,707**	$216,503
Electric Revenues	**93,934**	78,133
Other Revenues	**2,732**	1,229
	415,373	295,865
Operating Expenses		
Natural gas supply (Net of Alberta Government Rebate) (Note 1)	**221,245**	134,679
Operating and maintenance	**87,167**	72,797
Taxes — other than income	**21,836**	17,013
Depreciation	**18,782**	15,648
	349,030	240,137
Operating Income	**66,343**	55,728
Other Income		
Interest capitalized during construction	**2,331**	1,304
Interest	**1,368**	764
Gain on purchase of long-term debt	**282**	532
Miscellaneous	**(341)**	935
	3,640	3,535
	69,983	59,263
Income Deductions		
Interest on long-term debt	**20,143**	19,617
Interest on loan from affiliated company	**263**	263
Other interest	**697**	1,978
Debt and share expenses amortized	**353**	387
	21,456	22,245
	48,527	37,018
Income Taxes (Note 2)	**12,499**	8,667
	36,028	28,351
Minority Interests	**860**	860
Net Earnings Before Extraordinary Item	**35,168**	27,491
Extraordinary Item (Note 3)	**1,592**	
Net Earnings	**33,576**	27,491
Preferred Dividend Requirements	**7,487**	3,772
Balance Attributable to Common Shares	**$ 26,089**	$ 23,719
Earnings — Dollars Per Common Share (Note 4)		
Basic		
Net earnings before extraordinary item	**$ 1.64**	$ 1.62
Extraordinary item	**.09**	
Net earnings	**$ 1.55**	$ 1.62
Fully diluted		
Net earnings before extraordinary item	**$ 1.61**	$ 1.55
Extraordinary item	**.09**	
Net earnings	**$ 1.52**	$ 1.55

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

December 31, 1977 with comparative figures for 1976

	Thousands 1977	1976
ASSETS		
Current Assets		
Cash	**$ 466**	$ 311
Short-term investments	**14,500**	20,600
Accounts receivable (Note 5)	**69,016**	42,813
Materials and supplies — at average cost	**10,696**	8,552
Natural gas stored — at cost	**5,153**	4,552
Prepaid expenses (Note 6)	**3,795**	3,520
	103,626	80,348
Trust Assets Held for Rural Co-operative Lines, Per Contra	**8,011**	7,266
Trust Assets Held for Income Tax Rebate for Consumers, Per Contra	**4,722**	5,043
Accounts Receivable Due Beyond One Year	**1,204**	904
Property, Plant and Equipment at Cost Less Accumulated Depreciation (Note 7)	**618,799**	542,262
Deferred Income Taxes (Note 2)	**319**	
Deferred Expenses Unamortized (Note 8)	**7,601**	8,522
	$744,282	$644,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Due to bank	**$ 8,948**	$ 4,257
Accounts payable and accrued liabilities	**79,569**	56,718
Dividends payable	**1,842**	1,029
Long-term debt — current maturities (Note 10)	**2,580**	2,829
Note payable to affiliated company	**3,500**	
Deposits	**2,763**	2,504
Income and other taxes	**9,315**	7,132
	108,517	74,469
Amounts Held in Trust, Per Contras	**12,733**	12,309
Miscellaneous Liabilities	**3,109**	4,788
Notes Payable (Note 9)		2,400
Note Payable to Affiliated Company, 7½%, due November 15, 1978		3,500
Long-term Debt (Note 10)	**244,323**	225,734
Deferred Income Taxes (Note 2)		60
Contributions for Extensions to Plant	**47,453**	37,826
Amount Received Under The Natural Gas Pricing Agreement Act	**3,301**	2,035
Minority Interests (Note 11)	**20,008**	20,008
Shareholders' Equity		
Preferred shares (Note 12)	**109,300**	80,178
Common shares (Note 13)	**139,143**	134,684
	248,443	214,862
Less excess cost of shares of subsidiary companies over underlying net book value at December 31, 1971		17,567
	248,443	197,295
Retained earnings (Note 10)	**56,395**	63,921
	304,838	261,216
	$744,282	$644,345

On behalf of the Board:

J. E. Maybin/Director **D. R. B. McArthur**/Director

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

CANADIAN UTILITIES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1977 with comparative figures for 1976

	Thousands 1977	1976
Sources of Working Capital		
Net earnings before extraordinary item	**$ 35,168**	$ 27,491
Add non-cash items, principally depreciation	**20,679**	17,051
Provided from operations	**55,847**	44,542
Issue of long-term debt	**24,780**	48,996
Issue of 9.24% cumulative redeemable second preferred shares Series B		38,775
Issue of 7.30% cumulative redeemable second preferred shares Series C	**29,068**	
Issue of common shares		23,089
Issue of common shares on conversion of $1.25 preferred shares and exercise of warrants	**4,459**	4,348
Increase in contributions for extensions to plant	**10,341**	11,375
Disposition of property, plant and equipment	**1,124**	3,453
Amount payable for coal leases		3,000
Net proceeds under The Natural Gas Pricing Agreement Act	**1,266**	1,557
	126,885	179,135
Uses of Working Capital		
Purchase of property, plant and equipment	**97,527**	86,354
Reduction in notes payable	**2,400**	44,875
Reduction in long-term debt	**6,411**	5,334
Reduction in notes payable to affiliated company	**3,500**	
Dividends — preferred	**7,569**	3,706
— common	**14,417**	11,014
Redemption of $1.25 preferred shares	**220**	
Conversion of $1.25 preferred shares	**658**	4,348
Increase in deferred expenses	**2,530**	901
Reduction in coal leases	**2,000**	
Other	**423**	(202)
	137,655	156,330
Increase (Decrease) in Working Capital	**$ (10,770)**	$ 22,805
Analysis of Changes in Working Capital		
Cash	**$ 155**	$ 46
Short-term investments	**(6,100)**	20,500
Accounts receivable	**26,203**	(19,072)
Materials and supplies	**2,144**	(1,526)
Natural gas stored	**601**	2,078
Prepaid expenses	**275**	(592)
	23,278	1,434
Due to bank	**4,691**	133
Accounts payable and accrued liabilities	**22,851**	(6,494)
Dividends payable	**813**	14
Long-term debt — current maturities	**(249)**	(8,749)
Note payable to affiliated company	**3,500**	
Preferred shares to be redeemed		(1,200)
Deposits	**259**	762
Income and other taxes	**2,183**	(5,837)
	34,048	(21,371)
Increase (Decrease) in Working Capital	**$ (10,770)**	$ 22,805

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1977 with comparative figures for 1976

	Thousands	
	1977	1976
Balance at Beginning of Year	**$63,921**	$53,134
Add Net Earnings	**33,576**	27,491
	97,497	80,625
Deduct		
Dividends		
Preferred shares	**7,568**	3,501
$1.25 cumulative redeemable convertible preferred shares	**1**	205
Common shares	**14,417**	11,014
	21,986	14,720
Share issue expense less related income taxes of $484 in 1977 and $883 in 1976	**1,549**	1,984
Write-off of excess cost of shares of subsidiary companies over underlying net book value at December 31, 1971	**17,567**	
	41,102	16,704
Balance at End of Year	**$56,395**	$63,921

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

December 31, 1977

Basis of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies. All material inter-company balances and transactions have been eliminated.

Property, plant and equipment

Property, plant and equipment includes cost of land, buildings and equipment. Certain additions to property, plant and equipment are made with assistance of provincial government grants and cash contributions from the customers who are to be served by the specific additions. Such contributions are required where the estimated revenue, over a specific period of time, is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. The gross cost of additions including any allowance for funds used during construction is included in property, plant and equipment.

Depreciation is provided on pooled assets at composite rates on a straight line basis over the average estimated useful lives of the assets. In accordance with the orders of regulatory bodies, depreciation is provided after giving effect to contributions for extensions to plant. The major assets of the gas utilities are depreciated at two and a quarter per cent and two and a half per cent and the major assets of the electric utilities are depreciated at approximately four per cent. Certain resource properties are depreciated in part on a unit withdrawal basis.

On retirement of depreciable plant, the accumulated depreciation is charged with the cost of the retirement unit less net salvage. Gains and losses on extraordinary retirements are recognized as extraordinary items in the financial statements.

Interest capitalized during construction

An allowance for funds used during construction of electric plant is capitalized at the weighted average interest rate of long-term debt.

Deferred expenses unamortized

Expenses incurred in connection with the issue of long-term debt are amortized over the periods that the debt is outstanding.

Deferred charges relating to gas exploration include expenditures related to the development of gas reserves. Costs resulting in a successful venture are capitalized and depreciated on a unit withdrawal method. Subject to the approval of the Public Utilities Board of Alberta costs of unsuccessful exploration, net of income taxes, incurred by the gas subsidiaries will be charged against the amounts received under The Natural Gas Pricing Agreement Act.

Goodwill consists of the excess cost of shares issued over the underlying net book value of shares acquired in 1972 from minority shareholders of a subsidiary company and is being amortized over a period of 40 years.

Other deferred charges are subject to amortization over varying periods of time not exceeding 40 years.

Income taxes

In fixing rates, except for the matters referred to below, the Public Utilities Board of Alberta permits the utility companies to recover only taxes payable currently and, accordingly, to the extent that capital cost allowances are claimed in excess of recorded depreciation, there has been a related reduction in the amount of income taxes otherwise payable which has not been reflected in the financial statements. The reduction will become a charge to be borne by the consumer in future years when recorded depreciation exceeds capital cost allowances claimed for income tax purposes.

The companies are permitted to claim deferred income taxes in respect to acquisition of natural gas rights, deferred gas costs, rate case expenses and share issue costs. The gas subsidiaries, at the specific request of the major communities served, have agreed to amortize the deferred taxes in respect to acquisition of natural gas rights by reducing the annual provisions for income taxes over a ten-year period.

Amounts available under The Natural Gas Pricing Agreement Act

Under The Natural Gas Pricing Agreement Act the company as an Alberta gas producer has available a pro rata share of monies under the Act which have been recorded net of royalties and income taxes. It is the company's intention, subject to approval of the Public Utilities Board of Alberta, to charge the costs of unsuccessful exploration against these amounts.

Natural gas supply

The Province of Alberta enacted The Natural Gas Rebates Act effective January 1, 1974 to shelter the majority of Alberta natural gas consumers from the full impact of significant price increases for natural gas. Under the provisions of the Act, the gas utilities are reimbursed for the excess price paid to their suppliers over the support price. The statement of earnings is charged with the net cost of natural gas.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

1. Natural gas supply

The natural gas supply expense is net of Alberta government rebate amounting to $62,543,000 in 1977 and $58,951,000 in 1976.

2. Income taxes

The provision for income taxes in the consolidated statement of earnings includes a deferred tax draw-down of $1,000 in 1977 (a deferred tax draw-down of $912,000 in 1976).

Total deferred income taxes increased by $7,291,000 during 1977 ($5,679,000 in 1976). The cumulative amount of deferred income taxes to December 31, 1977 is $67,244,000 of which $319,000 has been recorded in the accounts as a deferred debit, $206,000 as a reduction in deferred expenses and $903,000 is included in income and other taxes payable.

3. Extraordinary item

The extraordinary item amounting to $1,592,000 net of income taxes of $1,515,000 represents a non-recurring loss of expenditures in Canadian Arctic Gas Study Limited. These costs have been charged against income following the rejection by the National Energy Board of the proposed Canadian Arctic Gas pipeline project.

4. Earnings per common share

In the fully diluted earnings per common share calculation, the assumption is made that warrants for the purchase of common shares at $9 had been exercised at the beginning of each year and that the funds derived therefrom had been invested to produce an annual rate of 8% before applicable income taxes. In addition, the calculation assumes conversion of the shares reserved for the employees share purchase plan. The average number of shares used in the calculation of fully diluted earnings per common share was 17,311,673 for 1977 and 15,567,310 for 1976.

5. Accounts receivable

	1977	1976
	(Thousands)	
Consumer accounts, gas and electric	**$47,187**	$26,744
Receivable from the Province of Alberta under The Natural Gas Rebates Act	**110**	
Receivable from the Province of Alberta under The Natural Gas Pricing Agreement Act	**12,148**	6,505
Other receivables and deposits	**9,571**	9,564
	$69,016	$42,813

6. Prepaid expenses

	1977	1976
	(Thousands)	
Deferred gas supply costs	**$ 1,810**	$ 1,798
Other	**1,985**	1,722
	$ 3,795	$ 3,520

7. Property, plant and equipment

	1977		1976	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
	(Thousands)		(Thousands)	
Gas utility plant and equipment	**$378,631**	**$ 99,516**	$327,177	$ 93,163
Electric utility plant and equipment	**391,904**	**62,162**	351,645	53,191
Undertakings, franchise and gas rights	**8,000**		8,000	
Land	**1,942**		1,794	
	$780,477	**$161,678**	$688,616	$146,354
	$618,799		$542,262	

8. Deferred expenses unamortized

	1977	1976
	(Thousands)	
Debt discount and expense	**$ 3,859**	$ 3,991
Gas exploration	**2,436**	622
Preferred share issue expense		986
Goodwill	**490**	504
Other deferred charges	**816**	821
Expenses incurred in connection with corporate reorganization and utility rate hearings (net of accumulated deferred taxes of $206,000 at December 31, 1977 and $276,000 at December 31, 1976)		
Expenditures in Canadian Arctic Gas Study Limited (net of accumulated deferred taxes of $1,515,000 at December 31, 1976)		1,598
	$ 7,601	$ 8,522

9. Notes payable

In common with most public utilities, the company is required to obtain new capital by issues of debentures and capital stock in order to finance its construction and expansion program. To permit the company to time the issues most advantageously, the company has entered into a loan agreement with its bankers under which they are committed until March 14, 1979 to loan the company on demand up to $60,000,000. The company issues commercial paper relying upon this commitment and at December 31, 1977 there were no notes payable representing commercial paper outstanding.

10. Long-term debt

	1977	1976
	(Thousands)	
Canadian Utilities Limited:		
$8\frac{3}{8}\%$ debentures 1972 Series, due March 1, 1992	**$ 27,297**	$ 28,070
$8\frac{3}{4}\%$ debentures 1973 Series, due July 2, 1993	**13,050**	15,000
$9\frac{1}{8}\%$ debentures 1974 Series, due March 15, 1994	**14,050**	15,000
$11\frac{1}{2}\%$ debentures 1974 — 2nd Series, due October 1, 1994	**17,500**	17,500
$11\frac{1}{4}\%$ debentures 1976 Series, due February 15, 1996	**50,000**	50,000
$9\frac{7}{8}\%$ debentures 1977 Series, due September 15, 2002	**25,000**	
	146,897	125,570
Alberta Power Limited:		
First mortgage sinking fund bonds:		
Series D — $4\frac{1}{4}\%$, due November 1, 1979	**3,280**	3,320
Series E — $4\frac{1}{8}\%$, due April 1, 1981	**2,863**	2,914
Series F — $4\frac{1}{2}\%$, due December 1, 1986	**5,000**	5,000
Series G — $4\frac{5}{8}\%$, due June 1, 1990	**12,000**	12,000
Series H — $6\frac{1}{2}\%$, due February 1, 1992	**8,000**	8,000
Sinking fund debentures:		
Series A — $7\frac{1}{4}\%$, due May 15, 1988	**13,245**	13,475
Series B — $9\frac{5}{8}\%$, due December 15, 1991	**8,328**	8,458
	52,716	53,167
Canadian Western Natural Gas Company Limited:		
First mortgage sinking fund bonds:		
Series B — $5\frac{3}{4}\%$, due February 1, 1982	**3,335**	3,488
Series C — $5\frac{3}{8}\%$, due April 1, 1983	**2,283**	2,431
Series D — $5\frac{5}{8}\%$, due May 1, 1989	**3,500**	3,625
Series E — 7%, due June 15, 1992	**5,425**	5,600
Sinking fund debentures:		
$9\frac{3}{4}\%$, due December 1, 1990	**8,121**	8,493
	22,664	23,637
Northwestern Utilities Limited:		
First mortgage sinking fund bonds:		
Series F — $4\frac{3}{4}\%$, due January 15, 1979	**477**	715
Series G — $5\frac{3}{8}\%$, due April 15, 1983	**3,519**	3,678
Series H — $5\frac{3}{4}\%$, due March 1, 1988	**7,285**	7,486
Series I — $6\frac{1}{2}\%$, due May 1, 1992	**3,700**	3,830
Series J — $9\frac{3}{4}\%$, due December 15, 1994	**6,325**	6,526
Sinking fund debentures:		
Series C — $6\frac{3}{4}\%$, due May 1, 1977		517
Series D — $6\frac{3}{4}\%$, due December 1, 1978	**508**	519
Series E — $7\frac{1}{4}\%$, due October 15, 1985	**2,812**	2,918
	24,626	26,189
Total long-term debt	**246,903**	228,563
Deduct current maturities	**2,580**	2,829
Long-term debt less current maturities	**$244,323**	$225,734

The long-term debt outstanding and current maturities thereof are stated after deducting bonds and debentures which have been purchased by the company and are held for future sinking fund payments and excluding requirements which may be satisfied by certification of property additions.

Installments of long-term debt maturing in each of the calendar years 1978, 1979, 1980, 1981 and 1982 amount to $2,580,000, $9,064,000, $5,900,000, $8,710,000 and $12,083,000 respectively. These maturities exclude requirements which may be satisfied by certificates of property additions and after the deduction of bonds and debentures which have been repurchased.

The bond and debenture indentures executed by the company and its subsidiaries place limitations on the company and its subsidiaries, including restrictions on the payment of dividends. Of the consolidated retained earnings at December 31, 1977 and 1976, approximately $42,025,000 and $36,860,000 respectively, were free from such restrictions.

11. Minority interests

		(Thousands)
Northwestern Utilities Limited:		
105,000 4% Cumulative Redeemable Preference Shares of the par value of $100 each		$10,500
Canadian Western Natural Gas Company Limited:		
275,410 4% Cumulative Redeemable Preference Shares of the par value of $20 each	$5,508	
200,000 5½% Cumulative Redeemable Preference Shares of the par value of $20 each	4,000	9,508
		$20,008

12. Preferred shares

Authorized:

40,000 5% Cumulative Redeemable Preferred Shares of the par value of $100 each.

150,000 series preferred shares of the par value of $100 each, issuable in series, of which 15,000 shares have been designated as Cumulative Redeemable Preferred Shares 4¼% Series and 50,000 shares designated as Cumulative Redeemable Preferred Shares 6% Series.

3,952,000 series second preferred shares of the par value of $25 each, issuable in series, of which 1,152,000 shares have been designated as 10¼% Cumulative Redeemable Second Preferred Shares Series A, 1,600,000 shares have been designated as 9.24% Cumulative Redeemable Second Preferred Shares Series B, and 1,200,000 7.30% Cumulative Redeemable Second Preferred Shares, Series C.

Issued:

	1977		1976	
	Number of Shares	**Value of Shares**	Number of Shares	Value of Shares
		(Thousands)		(Thousands)
5% preferred shares (i)	**40,000**	**$ 4,000**	40,000	$ 4,000
Preferred shares 4¼% series (ii)	**15,000**	**1,500**	15,000	1,500
Preferred shares 6% series (iii)	**50,000**	**5,000**	50,000	5,000
10¼% second preferred Series A (iv)	**1,152,000**	**28,800**	1,152,000	28,800
9.24% second preferred Series B (v)	**1,600,000**	**40,000**	1,600,000	40,000
7.30% second preferred Series C (vi)	**1,200,000**	**30,000**		
$1.25 convertible preferred shares (vii)				
Balance at beginning of year	**43,890**	**878**	261,284	5,226
Converted at varying dates into common shares without nominal or par value	**(43,890)**	**(878)**	(217,394)	(4,348)
			43,890	878
		$109,300		$80,178

During the year the company issued for cash $30,000,000 cumulative redeemable second preferred shares Series C. The net proceeds received were $29,068,000 after deducting underwriting commission and expenses of issue less applicable income taxes.

(i) 5% preferred shares
Redeemable at the option of the company on thirty days notice at $104 per share.

(ii) Preferred shares 4¼% series
Redeemable at the option of the company on thirty days notice at $102.50 per share.

(iii) Preferred shares 6% series
Redeemable at the option of the company on thirty days notice at $103 per share on or before February 1, 1982, thereafter reducing at various dates to a minimum redemption price of $101 per share.

(iv) 10¼% second preferred Series A
On June 1, 1976, the company, through the operation of the cumulative mandatory sinking fund, redeemed 48,000 shares at a price of $25 per share, plus an amount equal to all dividends accrued and unpaid. The authorized capital has been decreased accordingly by the cancellation of the 48,000 shares. By supplementary letters patent dated April 12, 1977, the rights, restrictions, conditions, limitations and prohibitions attaching to the 10¼% second preferred shares Series A were changed by deleting the provisions relating to the operation of the mandatory sinking fund and the non-cumulative option sinking fund and by substituting provisions requiring the company to make all reasonable efforts to purchase for cancellation on the open market 12,000 shares in each of the four quarterly periods ending on the last day of May, August, November and February at a price not exceeding $25 per share, plus costs of purchase, such obligation to carry over to the succeeding quarterly periods in the same year. If after all reasonable efforts the company is unable so to purchase an aggregate of 48,000 shares in the four quarterly periods of any year, the company's obligation to purchase shares, with respect to such shares is extinguished. The company may redeem the shares subsequent to January 31, 1980 and prior to January 31, 1981 at $26.25 per share, plus an amount equal to all dividends accrued and unpaid, and thereafter, at various dates and at various amounts reducing to a minimum redemption price of $25 per share.

(v) 9.24% second preferred Series B
Commencing with the calendar quarter ending March 31, 1977, the company is required to make all reasonable efforts to purchase for cancellation in the open market 12,000 shares in each calendar quarter at a price not exceeding $25 per share plus costs of purchase and such obligation carries over to the succeeding calendar quarters in the same calendar year. If after all reasonable efforts the company is unable so to purchase an aggregate of 48,000 shares in the four quarters of any calendar year, the company's obligation to purchase shares with respect to such calendar year is extinguished. The company may redeem the shares subsequent to December 21, 1981 and prior to December 21, 1982 at $26.25 per share plus an amount equal to all dividends accrued and unpaid and, thereafter, at various dates and at various amounts reducing to a minimum redemption price of $25 per share.

(vi) 7.30% second preferred Series C
Commencing with the calendar quarter ending March 31, 1978, the company is required to make all reasonable efforts to purchase for cancellation in the open market 9,000 shares in each calendar quarter at a price not exceeding $25 per share plus costs of purchase and such obligation carries to the succeeding calendar quarters in the same calendar year. If after all reasonable efforts the company is unable so to purchase an aggregate of 36,000 shares in the four quarters of any calendar year, the company's obligation to purchase shares with respect to such calendar year shall be extinguished. The company may redeem the shares subsequent to November 15, 1982 and prior to November 15, 1983 at $26 per share plus an amount equal to all dividends accrued and unpaid and, thereafter, at various dates and at various amounts reducing to a minimum redemption price of $25 per share.

(vii) $1.25 convertible preferred shares
The company redeemed the shares outstanding on January 28, 1977 at $20 per share and by supplementary letters patent dated May 2, 1977, the capital of the company was reduced by cancelling the 1,780,000 $1.25 Cumulative Redeemable Convertible Preferred Shares all of which had been issued and either converted or redeemed.

13. Common shares

Authorized:
30,000,000 without nominal or par value

Issued:

	1977		1976	
	Number of Shares	**Value of Shares**	Number of Shares	Value of Shares
		(Thousands)		(Thousands)
Balance at beginning of year	**16,633,504**	**$134,684**	14,198,376	$105,833
Issued on conversion of $1.25 preferred shares	**65,788**	**658**	434,788	4,348
Issued on exercise of share purchase warrants	**422,292**	**3,801**	340	3
Issued during the year			2,000,000	24,500
Balance at end of year	**17,121,584**	**$139,143**	16,633,504	$134,684

The company has reserved common shares for issue as follows:

In connection with share purchase warrants outstanding exercisable at a price of $9 per share (price is subject to adjustments in certain circumstances). The warrants expire May 15, 1978	172,368
In connection with an employee share purchase plan. The options are exercisable at $12.26 per share on December 31, 1979	106,035
	278,403

14. Remuneration of directors and officers

During the year ended December 31, 1977 the company paid aggregate remuneration of $80,000 to 15 directors as directors ($74,000 to 13 directors in 1976) and $451,000 to seven officers as officers ($554,000 to seven officers in 1976). Three officers were also directors in 1977 and two in 1976.

15. Commitments and contingencies

The cost of the company's construction and expansion program for 1978 will amount to approximately $114,000,000. Commitments under contract pertaining to this program are approximately $108,000,000 at December 31, 1977 of which approximately $32,000,000 will be incurred in 1978.

The companies have in effect a pension plan covering substantially all its employees. The aggregate unfunded past service liability amounted to approximately $12,829,000 at December 31, 1977. Of this amount $7,577,000 must be funded by December 31, 1981, and the balance over a period not exceeding 15 years.

The Public Utilities Board of Alberta approved a rate increase to a subsidiary, Northwestern Utilities Limited, of $2,800,000 on October 1, 1975. A portion of this increase has been contested and the issue between the intervenor and the Public Utilities Board of Alberta is presently before the courts.

16. Interim rates

Included in the company's earnings for 1977 are revenues derived from interim rate increases which are subject to review by and final order of the Public Utilities Board of Alberta. In the event that the interim rate increases are not fully confirmed the company will be required to refund the amount of any reduction to its customers.

17. Anti-Inflation Act

Effective October 14, 1975 the government of Canada enacted the Anti-Inflation Act and subsequently issued regulations which are presently scheduled to expire during 1978. The legislation is applicable to increases in prices and profit margins, employee compensation and shareholder dividends. The government of the Province of Alberta has indicated that it expects the Public Utilities Board of Alberta will permit regulated companies that provide the province with essential utilities to earn rates of return sufficient to assure continued viability and economic strength of such companies.

18. Comparative figures

Certain of the 1976 comparative figures have been reclassified to conform with the financial presentation adopted for 1977.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Utilities Limited as of December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as of December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Edmonton, Canada
January 27, 1978

TEN-YEAR GROWTH SUMMARY

(dollars in thousands except per share data)

	1977	1976	1975
Natural Gas Revenues	**$ 318,707**	$ 216,503	$ 141,834
Electric Revenues	**93,934**	78,133	57,945
Other Revenues	**2,732**	1,229	602
	415,373	295,865	200,381
Operating Expenses			
Natural gas supply	**221,245**	134,679	70,852
Operating and maintenance	**87,167**	72,797	56,541
Taxes — other than income	**21,836**	17,013	11,804
Depreciation	**18,782**	15,648	13,293
	349,030	240,137	152,490
Operating Income	**66,343**	55,728	47,891
Other Income			
Interest capitalized during construction	**2,331**	1,304	4,022
Interest	**1,368**	764	417
Gain on purchase of long-term debt	**282**	532	405
Miscellaneous	**(341)**	935	527
	3,640	3,535	5,371
	69,983	59,263	53,262
Income Deductions	**21,456**	22,245	19,851
	48,527	37,018	33,411
Income Taxes	**12,499**	8,667	8,686
	36,028	28,351	24,725
Minority Interests	**860**	860	860
Net Earnings before Extraordinary Items	**35,168**	27,491	23,865
Extraordinary Items — Non-Recurring Gain (Loss)	**(1,592)**		2,329
Net Earnings	**33,576**	27,491	26,194
Preferred Dividend Requirements	**7,487**	3,772	5,075
Balance Attributable to Common Shares	**$ 26,089**	$ 23,719	$ 21,119
Common Shares Outstanding	**17,121,584**	16,633,504	14,198,376
Earnings — Dollars Per Fully Diluted Common Share			
Net earnings before extraordinary items	**1.61**	1.55	1.45
Net earnings after extraordinary items	**1.52**	1.55	1.61
Common Dividends Paid (Not applicable prior to 1972)			
Amount	**14,417**	11,014	7,142
Dividends per share	**.8525**	.765	.65
Electric Statistics			
Electric plant	**358,597**	332,722	294,979
Construction work in progress	**34,365**	19,958	14,366
Gross plant in service at cost	**392,962**	352,680	309,345
Accumulated depreciation	**62,162**	53,191	45,677
Capital additions	**44,125**	45,913	51,142
Sales (thousands of kilowatt hours)	**2,357,793**	2,181,637	2,024,713
Maximum demand (thousands of kilowatts)	**524**	455	445
Plant capacity (thousands of kilowatts)	**671**	686	686
Customers at year-end	**106,855**	99,629	94,040
Communities served	**385**	368	365
Miles of power lines	**12,925**	12,498	12,004
Gas Statistics			
Gross plant in service at cost	**370,854**	333,882	300,799
Accumulated depreciation	**99,262**	92,997	89,264
Capital additions	**38,795**	39,401	29,478
Sales (millions of cubic feet)	**287,976**	258,480	250,477
Maximum daily demand (millions of cubic feet)	**1,594**	1,430	1,318
Degree days — Edmonton (normalized 5600)	**5,124**	4,891	5,555
— Calgary (normalized 5352)	**5,289**	4,885	5,750
Customers at year-end	**428,438**	400,474	373,254
Communities served	**260**	257	253
Miles of pipelines	**14,336**	13,576	12,122

1974	1973	1972	1971	1970	1969	1968	1967
$ 91,192	$ 82,026	$ 78,875	$ 70,342	$ 62,972	$ 59,221	$ 53,809	$ 51,925
46,295	38,305	33,849	30,552	27,666	21,968	18,830	16,725
294	40						
137,781	120,371	112,724	100,894	90,638	81,189	72,639	68,650
40,179	35,907	32,357	26,982	22,695	21,330	19,766	19,381
43,572	34,729	33,389	29,103	26,365	23,812	20,606	18,615
8,035	6,829	6,516	5,959	5,288	4,755	4,366	4,076
12,906	11,019	10,134	9,716	9,378	7,921	7,134	6,845
104,692	88,484	82,396	71,760	63,726	57,818	51,872	48,917
33,089	31,887	30,328	29,134	26,912	23,371	20,767	19,733
1,601	785	2,170	774	194	1,091	939	383
223	208	466	704	480	336	584	665
286	328	36	379	179	66	197	52
464	253	306	243	16	202	115	67
2,574	1,574	2,978	2,100	869	1,695	1,835	1,167
35,663	33,461	33,306	31,234	27,781	25,066	22,602	20,900
17,127	13,690	12,159	9,981	9,108	7,638	6,560	5,252
18,536	19,771	21,147	21,253	18,673	17,428	16,042	15,648
2,416	4,536	5,054	7,132	6,912	5,705	5,152	5,954
16,120	15,235	16,093	14,121	11,761	11,723	10,890	9,694
860	860	962	1,226	1,160	1,167	1,149	1,138
15,260	14,375	15,131	12,895	10,601	10,556	9,741	8,556
444		(89)	183	234	2,888	207	14
15,704	14,375	15,042	13,078	10,835	13,444	9,948	8,570
2,781	2,787	2,766	2,514	2,514	2,514	2,514	2,415
$ 12,923	$ 11,588	$ 12,276	$ 10,564	$ 8,321	$ 10,930	$ 7,434	$ 6,155
10,075,466	10,064,906	10,062,646	10,056,024	8,948,528	8,873,752	8,873,672	8,860,860
1.05	.99	1.05	.91	.80	.81	.74	.67
1.08	.99	1.04	.93	.82	1.03	.76	.67
5,943	5,535	5,231					
.59	.55	.52					
217,838	206,525	159,300	148,596	143,022	131,010	96,901	82,251
42,905	11,677	38,865	26,881	4,499	1,284	21,655	11,938
260,743	218,202	198,165	175,477	147,521	132,294	118,556	94,189
41,246	35,954	31,814	28,337	24,568	21,084	18,901	17,093
44,849	21,341	24,514	29,123	16,447	15,513	26,089	17,735
1,920,408	1,782,908	1,520,031	1,274,649	1,118,239	967,276	769,501	645,283
388	376	342	295	281	245	216	178
523	512	370	367	367	344	197	197
88,822	84,598	80,492	77,246	74,193	72,042	70,076	67,503
364	365	365	359	355	343	342	342
11,710	11,245	10,823	9,951	9,715	9,197	8,497	7,602
275,541	251,705	236,920	221,191	211,269	200,069	189,287	180,667
83,901	78,593	73,760	68,854	64,038	59,289	55,032	51,050
25,658	17,080	16,543	10,594	11,830	11,477	9,457	9,299
238,197	236,398	228,630	203,497	183,526	169,964	150,761	148,667
1,228	1,109	1,132	1,115	969	894	918	784
5,492	5,538	6,028	5,737	5,899	5,840	5,612	5,686
5,230	5,428	5,973	5,532	5,579	5,760	5,556	5,435
353,331	335,494	317,766	303,253	289,457	278,412	266,669	255,332
253	253	251	249	240	238	229	221
10,363	9,837	9,439	9,166	8,753	8,106	7,328	6,410

Fort McMurray

A dozen years ago you could not find a building in Fort McMurray over three storeys high. Today, two 12-storey high-rise apartments dominate the downtown skyline and a half-dozen similar size buildings are on the way. Such is the growth pattern of this frontier town 460 kilometres northeast of Edmonton in the middle of the vast Athabasca Tar Sands deposits.

This pictorial review shows some of the physical characteristics of Fort McMurray as seen in the summer of 1977 through the eyes of Alberta photographer Walter Petrigo.

Fort McMurray is a community of over 20,000 permanent residents. By 1980 it has been estimated the area will have a population of 36,000. Canadian Utilities has been associated with the town's development for over 20 years and today provides local residents with both natural gas and electric services.

Seen below are some panoramic perspectives of the central business district of Fort McMurray and arrival time at the airport where two to four flights a day place Edmonton and the Tar Sands just 45 minutes apart.

On these pages we see: An early prospector's cabin on the banks of the Clearwater River resisting the inroads of growth. /The geometric swirls of one of Fort McMurray's four planned mobile home communities from the air. /Barges on the Clearwater: Fort McMurray continues to serve as an important transportation terminal on the Athabasca River. /Modern-day development of the Athabasca Tar Sands started with the extraction plant of Great Canadian Oil Sands Limited shown here. It is now producing 55,000 barrels of synthetic crude per day. The Syncrude project, due to go on stream in the spring of 1978, is pictured on page eleven of this report. /History of the area is preserved at the Fort McMurray Historical Park.

Board of Directors

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Senior Vice-President, Finance
Canadian Utilities Limited
Edmonton, Alberta

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Executive Vice-President
IU International Corporation
Haverford, Pennsylvania

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Barrister and Solicitor
McLaws & Company
Calgary, Alberta

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The Royal Bank of Canada
Toronto, Ontario

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President
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Edmonton, Alberta

P. L. P. Macdonnell, Q.C.
Barrister and Solicitor
Milner & Steer
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Inland Cement Industries Ltd.
Edmonton, Alberta

* **W. S. McGregor**
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Edmonton, Alberta

W. S. McLeese
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Trans Canada Freezers Limited
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IU International Corporation
Salem, New Jersey

R. D. Southern
President and Chief Executive Officer
ATCO Industries Ltd.
Calgary, Alberta

C. N. W. Woodward
Chairman and Chief Executive Officer
Woodward Stores Limited
Vancouver, British Columbia

* Member of audit committee

Honorary Director

D. K. Yorath
Edmonton, Alberta

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Chairman and Chief Executive Officer

E. W. King
President

K. A. Biggs
Senior Vice-President, Finance

Staff Executives

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Vice-President

A. M. Anderson
Treasurer

H. N. Bottomley
Controller

W. A. Sullivan
Secretary

Harry Brown
Assistant Secretary and
Assistant Treasurer

Subsidiary Company Executives

ALBERTA POWER LIMITED

E. W. King
President and Chief Executive Officer

W. G. Sterling
Senior Vice-President

R. H. Choate
Vice-President

D. B. Mitchell
Vice-President, Industrial Relations

Keith Provost
Vice-President

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

NORTHWESTERN UTILITIES LIMITED

E. W. King
President and Chief Executive Officer

J. H. Pletcher
Senior Vice-President

D. B. Mitchell
Vice-President, Industrial Relations

D. L. Weiss
Vice-President, Gas Supply

A. J. L. Fisher
Vice-President and General Manager
Canadian Western Natural Gas
Company Limited

B. M. Dafoe
Vice-President and General Manager
Northwestern Utilities Limited

Other Subsidiaries Senior Operating Officers

CU ENGINEERING LIMITED

D. M. Murray
General Manager

CU ETHANE LIMITED

D. R. Brandt
President

CU RESOURCES LIMITED

D. L. Weiss
Manager

Subsidiary Companies

Alberta Power Limited
and subsidiaries:
The Yukon Electrical Company Limited
Yukon Hydro Company Limited

Canadian Western Natural Gas
Company Limited

Northwestern Utilities Limited
and subsidiary:
Northland Utilities (B.C.) Limited

CU Engineering Limited

CU Ethane Limited

CU Resources Limited

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Toronto Office
2314 Commercial Union Tower
Toronto Dominion Centre
Toronto, Ontario, Canada M5K 1H1
Telephone: (416) 869-3868

Transfer Agent and Registrar

Common Shares and Preferred Shares:
Montreal Trust Company
Montreal/Toronto/Winnipeg/Regina
Calgary/Edmonton/Vancouver

Trustee and Registrar

Debentures:
National Trust Company, Limited,
Montreal/Toronto/Winnipeg
Calgary/Edmonton/Vancouver

Stock Exchange Listings

Common Shares:
Toronto, Montreal and Alberta
Stock Exchanges

Preferred Shares:
10¼% second preferred Series A
9.24% second preferred Series B
7.30% second preferred Series C
Toronto and Montreal Stock Exchanges

5% preferred
4¼% Series preferred
6% Series preferred
Toronto Stock Exchange

Auditors

Peat, Marwick, Mitchell & Co.
2500 Alberta Government
Telephones Tower
10020 - 100th Street
Edmonton, Alberta

Valuation Day

The following are the Valuation Day prices for Canadian Utilities' common shares and warrants, adjusted for the stock split of September 15, 1972.

Common Shares.................... $9.31
Warrants......................... $2.13

1977 Common Share Dividends

Record Date	Date Paid	Amount
Feb. 7/77	Mar. 1/77	.21
May 10/77	May 31/77	.21
Aug. 10/77	Sept. 1/77	.21
Nov. 18/77	Dec. 1/77	.22¼
		.85¼

Annual Meeting

The annual meeting of shareholders will be held in Edmonton, Alberta on April 25, 1978.

Irrigation pumps powered by natural gas helped southern Alberta farmers combat severe drought conditions that affected much of the 1977 growing season.

LITHOGRAPHED IN CANADA

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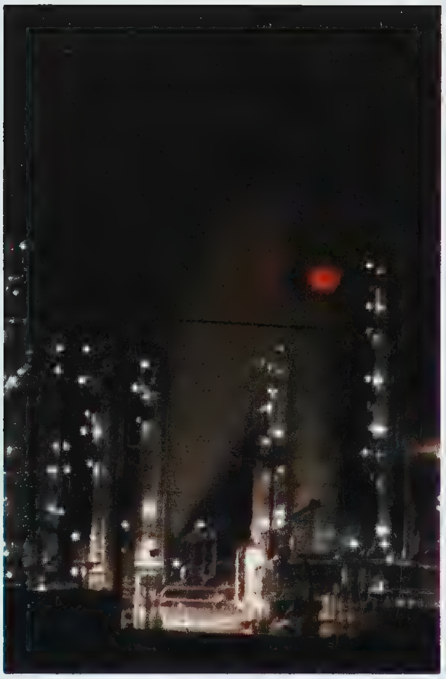
CANADIAN UTILITIES, LIMITED ANNUAL REPORT 1971



and subsidiary companies
Alberta Power Limited and subsidiaries
Canadian Western Natural Gas Company Limited
Northwestern Utilities, Limited
Northland Utilities Limited and subsidiaries

Registered Office: 10040 - 104 Street, Edmonton, Alberta, Canada

BOARD OF DIRECTORS

E. W. King, Edmonton
President and Chief Executive Officer, Canadian Utilities, Limited

F. C. Manning, Calgary
President, Manning Egleston Lumber Company Limited

J. E. Maybin, Philadelphia, Pa.
Chairman, Canadian Utilities, Limited

D. R. B. McArthur, Edmonton
President, Inland Cement Industries Ltd.

K. L. MacFadyen, Calgary
Senior Vice-President - Finance, Canadian Utilities, Limited

J. M. Seabrook, Salem, New Jersey
Chairman and President, International Utilities Corporation

A. F. Shortell, Lloydminster
President, CKSA - TV Limited

L. F. Snyder, Calgary
Farmer

M. E. Stewart, Honolulu, Hawaii
President and Chief Executive Officer, C. Brewer and Co., Ltd.

D. K. Yorath, Edmonton
Chairman of the Executive Committee and Vice-President, International Utilities Corporation

Honorary Directors

H. R. Milner, C.C., Q.C., Edmonton
Honorary Chairman of the Board, Canadian Utilities, Limited

G. L. Cooke, Lloydminster
Physician

G. E. Kelly, Edmonton
Engineer

OFFICERS

J. E. Maybin, Chairman

E. W. King, President and Chief Executive Officer

K. L. MacFadyen, Senior Vice-President - Finance

E. G. Ringrose, Vice-President - Administration

R. N. Dalby, Vice-President

A. M. Anderson, Controller

W. A. Sullivan, Secretary

H. N. Bottomley, Treasurer

H. Brown, Assistant Secretary and Assistant Treasurer

TEN YEAR GROWTH SUMMARY

REFLECTING THE CORPORATE RESTRUCTURING AND ACQUISITIONS

	1971	1970
GROSS ADDITIONS TO PLANT: (in thousands of $)		
Electric	$ 29,023	16,293
Gas	11,143	12,562
Total	40,166	28,855
GROSS PLANT	397,233	359,415
Less accumulated depreciation	97,191	88,607
NET PLANT	300,042	270,808
TOTAL ASSETS	328,388	306,924
OPERATING REVENUES: (in thousands of $)		
Electric	30,397	27,564
Gas	70,127	62,724
Total	100,524	90,288
Operating expenses	78,279	70,272
Other income	1,857	853
Interest and other deductions	9,981	9,108
Net earnings from operations including minority interest	14,121	11,761
Minority interest	1,226	1,160
Net earnings from operations	12,895	10,601
Extraordinary items less minority interests therein	183	234
Net earnings	13,078	10,835
Preferred dividends	2,514	2,514
NET INCOME TO COMMON SHAREHOLDERS	10,564	8,321
EARNINGS PER COMMON SHARE:		
From operations	$ 4.13	3.60
Total, including extraordinary items	4.20	3.72
COMMON SHARES OUTSTANDING	2,514,006	2,237,132
SALES OF ELECTRIC ENERGY (thousands of kilowatt hours)	1,274,649	1,118,239
MAXIMUM DEMAND (thousands of kilowatts)	295	281
SALES OF NATURAL GAS (millions of cubic feet)	206,630	186,831
MAXIMUM DAILY DEMAND (millions of cubic feet)	1,090	986
PLANT CAPACITY (thousands of kilowatts)	367	367
MILES OF POWER LINES	9,951	9,715
MILES OF PIPELINES	9,166	8,753
CUSTOMERS AT YEAR-END:		
Electric	77,246	74,193
Gas	303,253	289,457
COMMUNITIES SERVED:		
Electric	359	355
Gas	249	240

1969	1968	1967	1966	1965	1964	1963	1962
15,150	26,225	17,899	11,149	7,885	6,244	5,516	3,563
12,062	9,871	9,751	9,328	8,622	5,966	9,476	8,135
27,212	36,096	27,650	20,477	16,507	12,210	14,992	11,698
333,014	308,581	275,649	250,758	232,689	218,546	207,458	193,852
80,373	73,933	68,154	62,630	57,284	52,710	47,773	43,271
252,641	234,648	207,495	188,128	175,405	165,836	159,685	150,581
283,942	262,320	234,144	211,153	200,311	190,560	180,621	166,990
21,874	18,761	16,669	14,976	13,887	13,196	12,205	11,394
58,966	53,557	51,690	50,377	48,037	43,301	39,550	38,134
80,840	72,318	68,359	65,353	61,924	56,497	51,755	49,528
62,972	56,588	54,513	51,976	48,874	44,993	40,946	39,134
1,493	1,720	1,100	523	969	956	838	750
7,638	6,560	5,252	4,340	4,134	3,706	3,560	3,102
11,723	10,890	9,694	9,560	9,885	8,754	8,087	8,042
1,167	1,149	1,138	1,156	1,168	1,128	1,093	1,099
10,556	9,741	8,556	8,404	8,717	7,626	6,994	6,943
2,888	207	14	256	647	27	118	—
13,444	9,948	8,570	8,660	9,364	7,653	7,112	6,943
2,514	2,514	2,415	2,214	2,214	2,214	2,214	2,214
10,930	7,434	6,155	6,446	7,150	5,439	4,898	4,729
3.62	3.25	2.75	2.79	2.96	2.48	2.20	2.18
4.93	3.34	2.76	2.92	3.25	2.49	2.25	2.18
2,218,438	2,218,418	2,214,215	2,209,652	2,198,131	2,183,470	2,175,810	2,169,190
967,276	769,501	645,283	563,112	562,267	424,671	371,261	333,166
245	216	178	149	135	136	116	96
173,030	153,055	150,402	143,195	135,291	120,902	113,392	107,843
904	918	784	752	714	784	657	587
344	197	197	193	172	172	136	135
9,197	8,497	7,602	7,205	6,456	6,125	5,739	5,290
8,106	7,328	6,410	5,689	5,508	5,266	5,160	4,940
72,042	70,076	67,503	65,487	63,599	64,021	62,523	61,274
278,412	266,669	255,332	247,157	239,390	231,484	222,827	214,806
343	342	342	340	314	316	298	242
238	229	221	206	195	193	190	184

CANADIAN UTILITIES LIMITED

REPORT TO THE SHAREHOLDERS:

During 1971 Canadian Utilities, Limited was an operating electric utility. On January 5, 1972 through a corporate restructuring approved by the shareholders on December 20, 1971, it became the holding company and the parent of Alberta's major gas utilities: Canadian Western Natural Gas Company Limited; Northwestern Utilities, Limited; their gas and electric associate, Northland Utilities Limited; and of a new company, Alberta Power Limited, which was formed to assume the former electric operations of Canadian Utilities. This now makes Canadian Utilities one of the largest investor-owned utility operations in Canada with net assets of $328 million and total annual revenue in excess of $100 million and the only such Canadian company having significant operations in both gas and electric service.

The accompanying auditors' report and financial statements reflect both the operations of Canadian Utilities as an operating electric utility for the year ended December 31, 1971 with comparative figures for 1970, and the operations of the Company on a combined basis for 1971 after giving effect to the restructuring and acquisitions.

Combined net earnings for 1971 before extraordinary items, but after allowance for minority interests, amounted to $12,895,000, equivalent to basic earnings of $4.13 per common share on the 2,514,006 common shares outstanding after giving effect to restructuring. The basic earnings for the same period without giving effect to restructuring were $3.89 per common share on 1,182,274 common shares, compared with $3.71 for the year 1970.

Total revenue from gas and electric sales totalled $100,524,000, an increase of $10,236,000 over the previous year. Electric revenue was $30,397,000, an increase of 10 per cent over 1970; and gas revenue $70,127,000 for an increase of 12 per cent. The latter was favourably affected by an overall rate increase of approximately 10 per cent approved by the Public Utilities Board for Canadian Western Natural Gas Company effective February 1, 1971.

The results for the year were very encouraging. Alberta's coal, oil and gas reserves remain in strong demand, and farm cash receipts, building permits and other economic indicators detailed elsewhere in this report were all improved over 1970. In consequence the Company's service territory continues to be one of the most active areas for development in Canada.

The operating subsidiaries are now engaged in the largest construction program in their history, requiring estimated capital expenditures of $162,000,000 during the next five years, of which $40,000,000 will be expended in 1972. Of these amounts the electric operations are expected to require $104,000,000 for the five year period, with $23,000,000 to be expended in 1972. The combined capital program for 1971 was $40,239,000.

It is anticipated that the restructuring of the Company will facilitate the financing necessary to carry out this program. Over the past five years the individual subsidiaries in total have made eight debt financings, together with one issue of preferred shares and one issue of common shares through a rights offering. It is now expected that future financings will be done through the Company which will then in turn finance the requirements of the subsidiaries. Your board believes that this method of financing will enable the capital needs of all the subsidiaries to be met on more favourable terms with financings in larger amounts and at less frequent intervals.

On March 1, 1972, the Company sold at par to the public, through its underwriters, $30,000,000 of 8-3/8% debentures, 1972 Series. This was twice the amount of the next largest previous offering of any of the subsidiaries.

Reflecting the continued growth in earnings and confidence in the effects on the Company of restructuring, your directors, on January 10, 1972, increased the quarterly dividend payable March 1 to 50 cents per common share, from its previous level of 42-1/2 cents. This is the first change in dividend rate since 1966.

The annual report of the Company for the year 1970 contained reference to the White Paper on Tax Reform and to representations which were being made to the federal government by the Company together with other Canadian gas and electric utilities. Your directors are pleased to report that these submissions were favourably received by the government with the result that an area of considerable concern to the gas and electric utility industry has been clarified in that dividends paid by these companies will continue to qualify for a dividend tax credit under the new federal income tax legislation. In addition, the mechanism under which substantially all of the federal income taxes paid by the subsidiaries are rebated to the Province of Alberta and the Territorial Governments and in turn, through your subsidiaries to their consumers on behalf of these governments, remains in effect.

The combined consolidated financial statements reflect those parts of the plan of restructuring which have been completed. On January 7 the Company mailed an offer to the minority shareholders of Canadian Western Natural Gas Company for the exchange of each ordinary share of Canadian Western held for one $1.25 cumulative redeemable convertible second preferred share of $20 par value of the Company. This offer is identical to that made to Canadian Western's former parent, International Utilities Corporation, and which was accepted by that corporation on January 5, 1972. As of March 7, 1972 the offer had been accepted with respect to 171,987 shares representing 78 per cent of the outstanding minority interest in Canadian Western. The expiry date of the offer is May 10, 1972.

The rapidly increasing demand for natural gas on the North American continent has resulted in substantial increases in the field price of gas in Alberta. The gas subsidiaries recognize that some further increases in field gas prices may be necessary to insure the full development of the gas reserves of the province and to provide adequately for the future requirements of our customers.

Although the constant pressure toward higher operating costs must remain a continuing concern, your directors do not contemplate increased rates in the subsidiary companies at this time.

In 1971 the Alberta government established the Energy Resources Conservation Board to merge the major regulatory functions of the Oil and Gas Conservation Board and the former Alberta Power Commission, and extended its jurisdiction to the coal industry. The Company's application for approval of its projected addition to its Battle River Station was the first heard by the new board, and in support of its submission it was necessary to demonstrate that the project was soundly planned and in the public interest. Subject only to certain environmental criteria being satisfied the application has been approved.

In addition to the jurisdiction exercised by the Energy Resources Conservation Board, the closest possible co-ordination continues to be maintained with the other electric utilities in Alberta to ensure that an adequate and dependable supply of power is available throughout the province. As a result Alberta for many years has enjoyed a standard of service reliability unexcelled in Canada.

On February 1, 1972, John E. Maybin, who had been Chairman and Chief Executive Officer of the Company since July, 1969, was appointed Group Vice President — Utilities of International Utilities Corporation. Mr. Maybin continues to hold the position of Chairman of the Company. His duties as Chief Executive Officer have been assumed by the President, E. W. King.

In the spring of 1971 new collective agreements were negotiated with the employee associations for the gas operations. These agreements cover 1,125 permanent as well as all seasonal employees and are effective for 1971 and 1972. In January, 1972, a new two-year collective agreement for the years 1972 and 1973 was reached with the employee association in the Company's electric operations. This agreement covers 475 permanent employees.

The Company continues to enjoy an excellent employer—employee relationship. The directors express their appreciation of the continuing contribution made by the staff to the operation, expansion and development of the Company.

ON BEHALF OF THE BOARD OF DIRECTORS

E. W. King

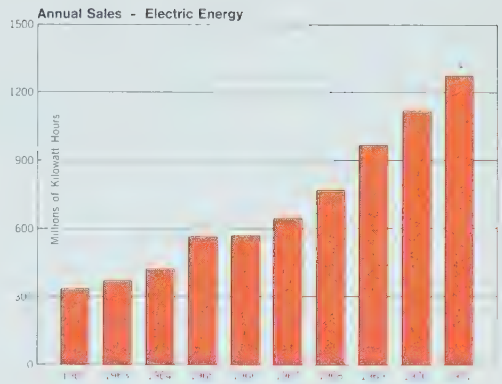
E. W. King,
President and Chief Executive Officer

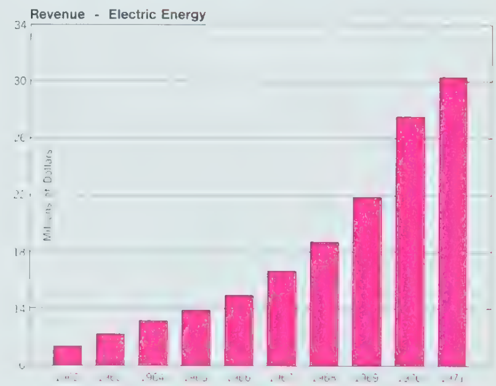
March 9, 1972


Arctic Circle
Alaska
Yukon
Whitehorse
Northwest Territories
Great Slave Lake
Hay River
Uranium City
Fort McMurray
Alberta
Dawson Creek
Grande Prairie
Edmonton
Lloydminster
CANADIAN UTILITIES, LIMITED
Electric System
Natural Gas Systems
British Columbia
Calgary
Lethbridge
U.S.A.

REPORT ON OPERATIONS

ELECTRIC OPERATIONS





SUMMARY

Use of electric energy in the company's service territory continued at an excellent rate in 1971. Sales of energy totalled 1,274,649 thousands of kilowatt hours, an increase of 14 per cent over the previous year. This compares with the recent annual growth rate of 5 per cent in Canada as a whole.

The number of electric consumers rose to 77,246 at the end of 1971, an increase of 3,053 from the previous year. Revenue from sales of electric energy for 1971 was $30,397,000, an increase of $2,833,000 over 1970.

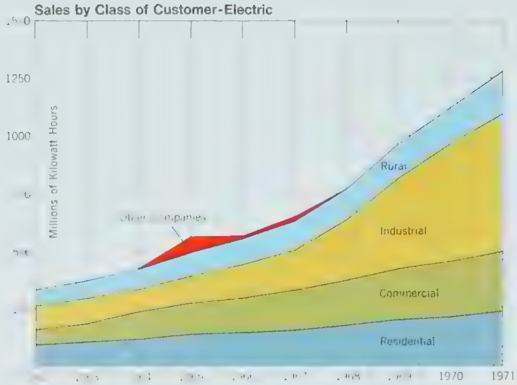
The company provides electric service through its operating companies: Alberta Power Limited and Northland Utilities Limited and their subsidiary companies in east-central and northern Alberta, the Yukon Territory, the Northwest Territories and in Lloydminster and Uranium City, Saskatchewan.

In total, more than 350 communities are served. The supporting economy includes mixed farming, oil and gas exploration and production, lumbering, coal and metal mining, commercial fishing, tourism and northern transportation facilities.

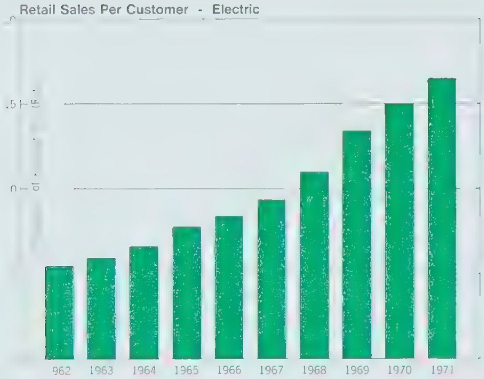
MARKET GROWTH

The continuing high level of development of resource industries together with an improvement in farm cash receipts resulted in a sustained growth in the number of new homes, commercial buildings, hospitals and schools throughout the company's service areas.

Sales by Class of Customer-Electric



Retail Sales Per Customer - Electric



Supply of electric service to oil and gas fields continues to expand and revenue from this source increased 20 per cent over 1970. It now amounts to 22 per cent of total electric revenue. The company serves more than 100 different oil companies in some 1,700 locations.

In addition to providing electricity for pumping oil there has been a notable increase in the number of pumping services provided for water source wells and salt water disposal. For example, at Freeman Lake, in the Swan Hills, electric service will be provided to a water booster station with an initial load requirement of 5,600 horsepower.

Projected new developments at the Athabasca tar sands forecasts a bright future for the Fort McMurray area. Late in the year Syncrude Canada Limited received approval of its application, first filed in 1962, for construction of a $500,000,000 extraction plant. The company plans production of 125,000 barrels of oil a day when the plant is in full production in mid-1976. In addition to a substantial work force during the construction phase, this project will provide permanent jobs for about 1,100 operating employees.

In 1971 Fort McMurray reported an increase of more than 200 in the number of residences, including three large apartment buildings. Population of Fort McMurray increased by 1,000 to more than 7,000 at year's end. The town has annexed property for an additional 300 lots.

In the agricultural sector, Alberta farm cash receipts in 1971 recorded an 11 per cent increase over the 1970 level. Farm customers, who are assisted by the company's agricultural staff in developing the optimum use of electricity, continued in 1971 to make greater use of this source of energy. Average use per service in 1971 grew to 9,566 kilowatt hours per year, an increase of 14 per cent.

A total of 308 electric service contracts were received from new members of the 166 Rural Electrification Associations served by the company, compared with 279 the previous year. Power lines to serve the majority of these were completed by year's end. The company now serves approximately 19,000 farm customers. It is estimated that more than 90 per cent of the occupied farms in the company's operating territory now have electric service available.

The northern Alberta district reports a year of outstanding growth. At year's end 28,255 customers were being served, an increase of 1,791. In Grande Prairie 450 customers were added, and in the new coal mining town of Grande Cache an additional 255 customers received service during the year. Grande Prairie itself had a record construction year, with building permits exceeding $8,000,000. This growth was associated largely with the anticipated requirements for those to be employed in Procter and Gamble's new 750 ton per day pulp mill.

The Yukon companies experienced a 10 per cent increase in customers and a 12 per cent increase in revenue. Growth, however, was tempered by the closure of two mines, one of which is continuing development work. Electric heating continues to be popular in the Yukon where approximately 65 homes and 8 apartment buildings in Whitehorse are now totally heated by electricity.

Electric power is available to more than 350 communities. They range from Stettler, left, and Drumheller, top, in central Alberta, to far north settlements like Whitehorse and Fort Chipewyan. Competition is keen at winter carnivals, such as at Fort McMurray.

NEW CONSTRUCTION

GENERATION

During the year capital expenditures of $19,454,000 were made on the major new station, the H. R. Milner 150,000 kilowatt steam plant being built near Grande Cache, the site of the McIntyre-Porcupine coal mine. All major contracts have been issued on the project and initial steaming is planned for June, 1972. Final cost of this plant is expected to be $34,000,000 of which expenditures in 1972 are forecast at $11,000,000.

To meet foreseen growth requirements the company plans to install and put into service by 1975, another 150,000 kilowatt unit at the Battle River Station. Approval to proceed has been received from the Alberta Energy Resources Conservation Board subject only to additional approvals by the Department of the Environment. When completed the capacity at Battle River will be 362,000 kilowatts, provided by two 31,000 kilowatt and two 150,000 kilowatt generators. During 1972 nearly $1,000,000 will be spent on initial work for the fourth generator.

A major investigation of the coal resources adjacent to the Battle River Station was undertaken during the past year, including field drilling, coring and mapping. This investigation has confirmed the existence of an adequate supply of coal for the new Number 4 unit.

Total generating capacity of the company's 33 generating plants on completion of the H. R. Milner Station but not including Battle River Number 4, will be 517,000 kilowatts. Battle River Station and six other plants are part of the Alberta provincial inter-connected grid system. There are 26 smaller plants throughout the more remote areas of Alberta, the Yukon and the Northwest Territories.

TRANSMISSION & DISTRIBUTION

In mid-1971 construction was started on a 90-mile 144,000 volt line running from the H. R. Milner Station at Grande Cache to Grande Prairie. Completion of this construction in 1972 at a total cost of $2,600,000 will provide a second interconnection from the provincial grid to the H. R. Milner Station and will facilitate the delivery of power from the Grande Cache area to northern Alberta.

A second major transmission project was the completion, at a cost of $600,000, of a 144,000 volt line from Metiskow to Monitor, a distance of 30 miles, to reinforce the supply of power to east-central Alberta.

Continued oil field use in the Swan Hills area required the construction of three new substations and about 18 miles of 72,000 volt transmission line.

During the year the company's engineering department commissioned a unique remote control system which permits the two 30,000 kilowatt gas turbines in the Rainbow Station located in the extreme northwest corner of the province to be entirely controlled from the Sturgeon Station east of Grande Prairie, spanning a distance of more than 300 miles.

In addition, many minor extensions and improvements were made during the year.

Total expenditures in 1971 on transmission and distribution facilities amounted to $9,323,000.

FUTURE DEVELOPMENT

The company's capital budget for electrical development in 1972 is $22,809,000. More than half of the expenditures will be devoted to power generating facilities with other major projects designed to expand the electric system to meet continually increasing demands for service.

Capital expenditures of nearly $800,000 will be devoted to additional diesel generating facilities serving isolated communities in the north, including $200,000 for improvements in generating capacity for Hay River, N.W.T.

Approximately $3,000,000 will be expended for high voltage transmission lines in the Drumheller, Grande Prairie and Vegreville areas. Approximately $2,000,000 will be spent on substations.

In addition to completing the line from Grande Cache to Grande Prairie, 1972 plans call for construction of 60 miles of 144,000 volt line from Barrhead to the Swan Hills area, 18 miles of 72,000 volt line within the Swan Hills area and 40 miles of 72,000 volt line to the Pollockville area. The sum of $250,000 is provided for oilfield transmission line extensions.

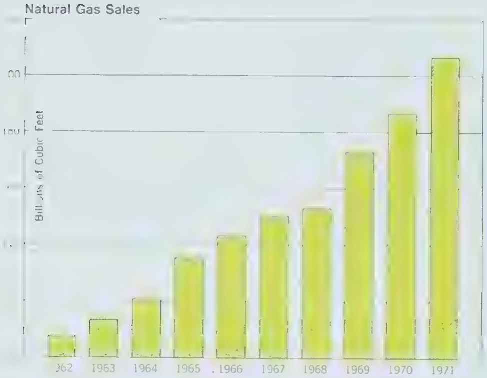
Extensions to serve new customers will require nearly $500,000, while an equal amount will go towards the purchase of distribution transformers and voltage regulators for these new extensions. About 30 per cent of new customer installations will be placed underground.

The company's newest generating plant, the H. R. Milner Station, top, is nearing completion at Grande Cache. It is also seen on our front cover.

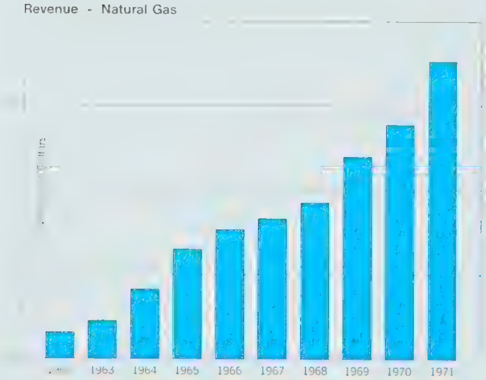
The Astoria Plant, right, provides hydroelectric power to Jasper. Public tours are popular at the Battle River power plant where already unit number four is in the planning stage.

GAS OPERATIONS

Natural Gas Sales



Revenue - Natural Gas



SUMMARY

The company is the major gas distributor in Alberta. Service is provided through three operating subsidiary companies as follows:

Canadian Western Natural Gas Company Limited provides natural gas service to communities and farms in southern Alberta from just south of Red Deer to the U.S. border including the cities of Calgary and Lethbridge.

Northwestern Utilities, Limited provides natural gas service in the central Alberta area including the cities of Edmonton, Red Deer, Wetaskiwin and Camrose.

Northland Utilities Limited provides natural gas service to northern Alberta and to Dawson Creek, B.C.

Natural gas sales increased by 19.8 billion cubic feet in 1971 to 206.6 billion cubic feet, an increase of 11 per cent over 1970.

The major portion of the load growth resulted from the expansion of service to an exceptional number of new residential customers added during the year and to substantial growth of sales to industrial customers, especially in the Edmonton area.

Heating loads vary directly with temperature. Since, in 1971 the average temperature was near normal, the increase in residential sales in particular can be directly attributed to the growth in customers.

The following table shows sales by class of customer in 1971:

	Billions of Cubic Feet	Per Cent of Total
Residential	57.5	28
Commercial	60.0	29
Industrial	89.1	43
	206.6	100%

In 1971 a total of 13,796 new customers were connected, to bring the total at year-end to 303,253, the largest annual increase in the past 10 years. Six small communities were connected during the year.

New records were established for peak day delivery. In Northwestern's system this occurred on January 14, when 605 million cubic feet were sent out. On that day the temperature averaged 26.8 degrees below zero. It was not until December 15 that a new maximum day sendout was established on the Canadian Western system when the demand reached 447 million cubic feet.

MARKETING

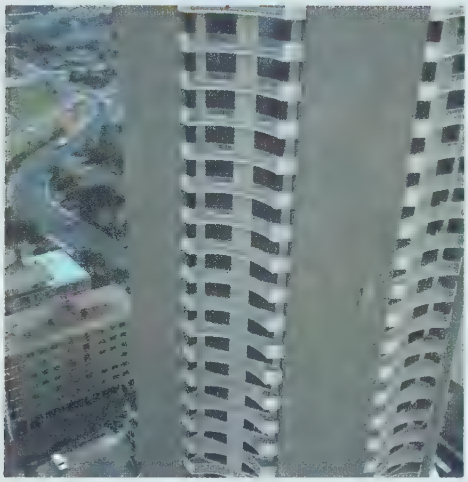
Owing to its inherent price advantage in Alberta, natural gas enjoys almost complete dominance of the heating market. Growth of gas load for this purpose therefore is highly dependent on growth of the communities served.

Principal markets of the gas companies are the two major cities of Calgary and Edmonton, both among the fastest growing areas in Canada. The 1971 census reports a population increase in five years, 1966 to 1971, of 21 per cent for Calgary and 16 per cent for Edmonton.

Both of these cities are growing at annual rates in excess of three per cent. At the end of 1971 Calgary had a population of approximately 413,000, and Edmonton of 450,000. About half the people of Alberta live in or near these two cities.

In Edmonton in 1971 building permits worth $190,200,000 were issued, surpassing the 1969 record of $169,300,000. Residential construction was largely responsible for the building boom as permits valued at $101,700,000 were issued for the construction of 9,100 homes and apartment dwelling units.

Construction at the University of Alberta, Canada's third largest university, continued during 1971 with the completion of the impressive $22,000,000 Biological Centre and three smaller centres totalling $15,000,000. In addition, the first stage of the $100,000,000 Health Service Centre was started.



Cities served by the companies continue to grow at a rapid rate as apartments and office buildings continue to be built. Also growing are universities, like the University of Lethbridge, right.

Night view is of downtown Edmonton, where the company's head office is located.

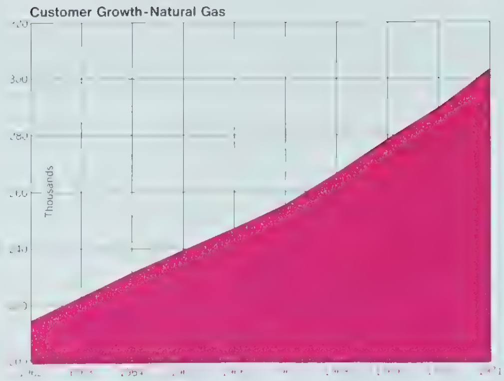
Edmonton is acknowledged as the refining and petrochemical centre of western Canada. In 1971 the Gulf Refinery completed its $84,000,000 expansion to 80,000 barrels a day, replacing existing refineries in Saskatoon, Moose Jaw and Calgary and making it the largest refinery west of Sarnia, Ontario. The refinery is one of the company's largest industrial gas customers. Imperial Oil Limited disclosed plans in late 1971 for a new 140,000 barrel per day refinery which will consolidate in Edmonton the operations of their existing plants now located at Edmonton, Calgary, Regina and Winnipeg. This new refinery, to cost more than $200,000,000, will be in operation in late 1974.

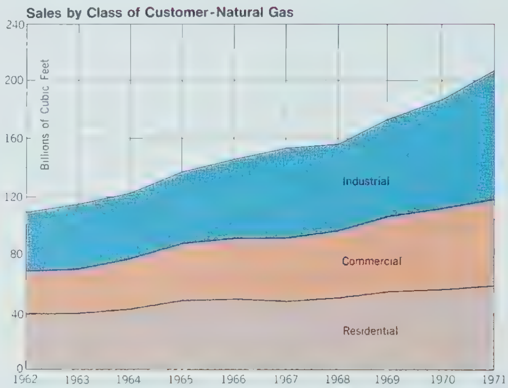
Sales to Edmonton Power, the company's largest customer, increased by 6 per cent in 1971.

Interprovincial Pipelines started construction of the fourth major oil products pipeline between Edmonton and Lake Superior, a $61,000,000 venture. One of Interprovincial's pumping stations near Hardisty, Alberta was converted to natural gas operation in 1971 with service provided by Northwestern.

One of the fastest growing areas in the country is the residential community of Sherwood Park, three miles east of Edmonton. In 1971 it reached a population of 17,500, an increase of 29 per cent over 1970. The other satellite towns of St. Albert, Spruce Grove and Fort Saskatchewan also marked continuing growth with a population increase of 19 per cent.

In Calgary the value of building permits issued during 1971 was $193,867,000, $20,400,000 higher than in 1970. New living accommodation was provided in 140 multiple dwelling projects and 4,166 residences, adding 7,856 dwelling units. In addition three mobile home parks were built to provide 780 new sites.





Industrial sales on the Canadian Western system increased by 6.9 billion cubic feet over 1970. Several industrial plants extended their facilities which will increase industrial gas sales. Among them are an aluminum extrusion plant, an enlarged milk plant, a large asphalt plant, an additional lime kiln at Exshaw, and an additional malt kiln in Calgary.

Demands for supplies by the construction industry which have been increasing each year have influenced Canada Cement Lafarge to announce a $30 million extension to its Exshaw plant. Construction will start in 1973 and by 1975 it is expected there will be a 50 per cent increase in gas sales to this plant.

Lethbridge had a year of modest growth. Its population is now approximately 42,000, an increase of almost 1,000 over the previous year. Building permits issued during 1971 totalled $18,124,000. Red Deer, fourth largest city served by the gas companies, reports building permits in 1971 of $9,300,000, the third highest in the city's history. Population of Red Deer is now more than 27,000.

NEW CONSTRUCTION

Capital expenditures for the gas utilities in 1971 were $11,000,000, covering the construction of pipelines and facilities, and the purchase of meters and other required equipment, to serve the record number of new customers connected during the year.

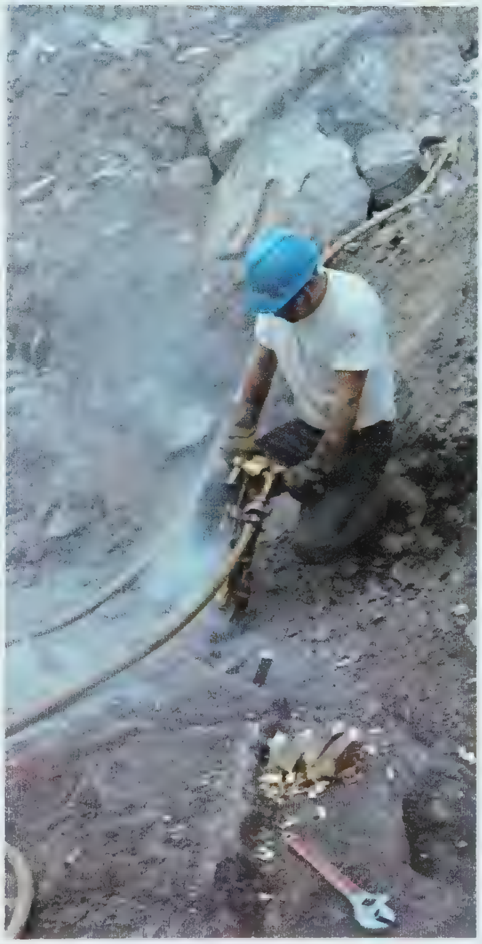
During 1971 a total of 413 miles of pipelines were added to the gathering, transmission and distribution network. At the end of the year the systems totalled 9,166 miles.

The largest program of capital expenditures in company history is forecast for 1972. Construction programs are estimated at $16,850,000.

The high rate of population growth in the area served by the gas utilities in 1971 is expected to continue in 1972, anticipating the connection of 10,700 new customers, including 750 rural customers. Cost of the extensions to serve these new customers is estimated at $5,315,000.

The largest project in the Northwestern system, at a cost of about $2,000,000, is a 10-inch, 54-mile, loop from the Paddle River plant to the junction of the Paddle River and Swan Hills transmission lines to augment supply in the Edmonton area. Another is the construction of nearly 18 miles of eight-inch gas pipeline from the Gold Creek gas plant to the pulp mill being built near Grande Prairie.

Canadian Western has contracted to install and operate a major storage scheme in the Carbon Field for TransCanada PipeLines for a 20-year period. This scheme involves the drilling of several additional wells and the installation of approximately 4,500 horsepower of compression facilities. Under the scheme, 20 billion cubic feet of TransCanada's gas will be stored during each summer storage season and an



During a year of exceptional customer growth gas pipelines were installed to serve Albertans in our cities, rural communities and in mountain areas.

equivalent total volume, at rates up to 200 million cubic feet per day, will be delivered back to TransCanada from storage during each winter season. The scheme will be partially in operation during 1972 and in full operation by the fall of 1973. Expenditures on this project in 1972 are estimated to be $2,766,000.

GAS INDUSTRY RESEARCH

Canadian Western has become the first Canadian member of a natural gas industry team engaged in a fuel cell research program which has been under way for several years. This program has shown that it is technically possible to produce electric power at the point of consumption by use of the natural gas fuel cell. There are 33 companies involved in the test program now in the process of field testing and determining possible market acceptance and economic feasibility of equipment which could provide the power requirements of a home or small commercial building. The first test installation in Canada will be made in Calgary in 1972 and will be open for public inspection.

Other research programs include studies on a system of mass measurement, where gas is measured by the pound instead of by the cubic foot. It is applicable at present only to large quantity measurement. The field work has been completed and the results are to be presented to the federal government authorities so this method of measuring may be approved for use in Canada.

This slogan was a major advertising theme of the gas companies in 1971.

GAS SUPPLY

The marketable gas reserves in fields serving the company's gas customers were estimated to be 5,140 billion cubic feet as at December 31, 1971.

Purchase gas cost of $24,722,000 was the company's largest single direct operating cost, accounting for more than 30 per cent of the total operating expense.

The accompanying table shows the various sources of gas supply for 1971.

	Per Cent of Total
Oilfield and gas plants	64.5
Dry gas fields	24.9
Export companies	6.0
Other sources	4.6
	100.0

Northwestern owns major interests in the dry gas fields, Viking-Kinsella, Beaverhill Lake, Fort Saskatchewan and Fairydell-Bon Accord and other minor sources. Gas from these fields was used primarily to meet the winter season peak loads. On the peak day, which occurred on January 14, 1971, these fields were called on to supply 58 per cent of Northwestern's total system demand.

The dry gas and storage fields at Bow Island, Carbon and Foremost, largely owned by Canadian Western, were called on to supply 23 per cent of Canadian Western's total system demand on the peak day, which occurred on December 15, 1971.

A relatively minor amount of the gas utilities total gas supply was purchased from the export companies, TransCanada PipeLines Limited, Westcoast Transmission Company Limited and Alberta and Southern Gas Co. Ltd. This gas was used to supply communities and rural customers which cannot be reached by the gas utilities' own pipeline network and to meet short term winter peaking requirements in various parts of the system.

The continuing growth of the company's markets requires constant attention to the addition of new gas supply sources.

During the year a new 10-year gas supply contract for an average volume of 20 million cubic feet per day was entered into by Northwestern with Canadian Industrial Gas & Oil Ltd. in the Edmonton area.

Agreement has been reached by Northwestern with the producers in the Paddle River Field to increase the average daily purchase from the present commitment of 17½ million cubic feet per day to approximately 40 million cubic feet per day. This increased supply will require the construction in 1972 of a new processing plant in the field by the producers and a partial looping of Northwestern's transmission facilities.

A one year gas purchase arrangement was made by Northwestern with TransCanada

PipeLines for the supply of 15 million cubic feet per day to Imperial Oil's miscible flood project in the Golden Spike oilfield.

Northwestern drilled a total of four wells during the year. Three exploratory wells drilled in the Viking-Kinsella area to test deeper horizons proved to be non-productive and were abandoned. A development well drilled using air-drilling techniques was very successful and resulted in a well with an absolute open flow potential of 78 million cubic feet per day, the highest deliverability well in Northwestern's dry gas fields. This well will be used to meet the peak winter requirements of the Edmonton area.

Canadian Western purchased properties containing a modest amount of reserves and two gas wells in the vicinity of the Carbon-Calgary transmission line. This property will be placed on production during 1972.

Northland purchased all of its gas requirements from other companies, who own gas in fields adjacent to Northland's systems. The gas supply in all areas of Northland's system was adequate to meet its requirements.

Working over a well in the Viking field.

Additional compression facilities will be installed at Carbon field in 1972.

FINANCIAL STATEMENTS

TRANSFER AGENTS AND REGISTRARS

COMMON SHARES AND PREFERRED SHARES

MONTREAL TRUST COMPANY
Edmonton, Alberta — Calgary, Alberta — Winnipeg, Manitoba — Toronto, Ontario — Montreal, Quebec — Vancouver, British Columbia — Regina, Saskatchewan

CONVERTIBLE DEBENTURES

THE ROYAL TRUST COMPANY
Edmonton, Alberta — Winnipeg, Manitoba — Toronto, Ontario — Montreal, Quebec — Vancouver, British Columbia

AUDITORS

PEAT, MARWICK, MITCHELL & CO.
2500 Alberta Telephone Tower
10020 - 100th Street
Edmonton, Alberta

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the combined consolidated balance sheet and the consolidated balance sheet of Canadian Utilities, Limited and Subsidiaries as of December 31, 1971 and the combined and consolidated statements of earnings and source and application of funds and consolidated statement of retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

(a) the accompanying combined consolidated balance sheet presents fairly the financial position of the companies as at December 31, 1971 after giving effect to the transactions referred to in Note 1 to the financial statements, in accordance with generally accepted accounting principles.

(b) the accompanying combined statements of earnings and source and application of funds present fairly, on the basis referred to in Note 1 to the financial statements, the combined results of operations and the combined source and application of funds of the companies for the year ended December 31, 1971, in accordance with generally accepted accounting principles.

(c) the accompanying consolidated financial statements present fairly the financial position of the company and subsidiaries as at December 31, 1971, and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Edmonton, Alberta
February 9, 1972

Peat, Marwick, Mitchell & Co.
Chartered Accountants

BALANCE SHEETS
DECEMBER 31

Assets

	Combined Consolidated (Note 1) 1971	Consolidated 1971	Consolidated 1970
Fixed assets:			
Property, plant, leases, rights, gas wells and equipment subject to amortization and depreciation, at cost	$389,233,737	150,528,324	123,108,010
Less accumulated amortization and depreciation (Note 2)	97,191,466	23,765,590	20,489,372
	292,042,271	126,762,734	102,618,638
Undertakings, franchises, gas rights, etc., in respect of which no provision for amortization is being made	8,000,000	—	—
Net fixed assets	300,042,271	126,762,734	102,618,638
Trust funds for rural co-operative lines, per contra:			
Trustee investments, at cost and accrued interest, and cash	5,591,323	4,940,949	4,661,250
Investments not having market quotations, at cost	210,002	190,893	1,005,187
Accounts receivable due beyond one year	1,383,651	—	—
Current assets:			
Cash	683,688	309,439	66,966
Marketable securities, at cost (market value 1971, $387,020; 1970, $4,300,000)	532,660	—	4,300,000
Accounts receivable	11,056,758	2,695,949	2,333,322
Due from affiliated companies	9,994	190,411	491,941
Materials and supplies, at or below average cost	4,768,733	1,724,122	1,489,034
Income taxes recoverable (Note 7)	—	87,429	—
Prepaid expenses	369,254	115,725	139,636
Total current assets	17,421,087	5,123,075	8,820,899
Unamortized debt discount and expense	3,032,125	1,663,072	1,742,469
Deferred expense	707,174	482,076	99,829
	$328,387,633	139,162,799	118,948,272

On behalf of the board:

E. W. KING, Director

K. L. MacFADYEN, Director

(See accompanying notes.)

Liabilities and Shareholders' Equity

	Combined Consolidated (Note 1)	Consolidated	
	1971	1971	1970
Shareholders' equity (Note 6):			
Preferred shares (Note 3)	*$ 41,707,600*	10,500,000	10,500,000
Common shares (Note 4)	*65,239,852*	17,297,500	17,297,500
	106,947,452	27,797,500	27,797,500
Less excess of value of shares of subsidiary companies after giving effect to the plan of corporate restructuring and acquisition over underlying net book value of those companies attributable to International Utilities Corporation (Note 1)	*17,567,362*	–	–
	89,380,090	27,797,500	27,797,500
Retained earnings	*20,496,557*	20,496,557	17,727,794
Total shareholders' equity	*109,876,647*	48,294,057	45,525,294
Minority interest (Note 5)	*23,743,489*	–	–
Long-term debt (Note 6)	*129,313,872*	67,858,500	59,744,750
7½% Note payable to parent company, due November 15, 1978	*3,500,000*	–	–
Amounts held in trust for rural co-operative lines	*5,591,323*	4,940,949	4,661,250
Current liabilities:			
Demand notes payable to affiliated company	*2,850,000*	–	–
Loans payable to bank	*17,950,000*	6,300,000	–
Accounts payable and accrued liabilities	*12,207,892*	5,423,410	3,567,828
Accrued interest on long-term debt	*1,304,391*	602,536	538,384
Long-term debt-current maturities (Note 6)	*2,782,500*	1,561,250	146,250
Deposits for rural co-operative construction	*796,884*	618,463	504,620
Consumer deposits	*2,071,306*	333,440	–
Due to parent company	*28,990*	–	–
Income taxes — net (Note 7)	*595,722*	–	1,399,600
Other taxes	*2,239,916*	–	–
Total current liabilities	*42,827,601*	14,839,099	6,156,682
Deferred income taxes (Note 7)	*1,774,595*	–	–
Other liabilities:			
Consumer deposits	–	–	317,382
Miscellaneous	*1,110,780*	347,092	312,348
Total other liabilities	*1,110,780*	347,092	629,730
Contributions for extensions to plant	*10,649,326*	2,883,102	2,230,566
Commitments (Note 8)			
	$328,387,633	139,162,799	118,948,272

STATEMENTS OF EARNINGS

	Year ended December 31,		
	Combined (Note 1)	Consolidated	
	1971	1971	1970
Electric energy sales	*$ 30,396,930*	24,885,775	22,909,080
Natural gas sales	*70,126,504*	—	—
	100,523,434	24,885,775	22,909,080
Operating expenses:			
Natural gas purchased	*24,721,534*	—	—
Operating	*26,721,634*	8,446,233	7,916,996
Maintenance	*5,213,172*	1,856,724	1,468,526
Taxes — income (Note 7)	*7,132,190*	1,608,405	1,941,268
Taxes — other than income	*5,959,395*	1,033,486	754,742
Depreciation exclusive of $570,227 — combined, $98,394 — consolidated, included in operating and other accounts (1970 - $143,962) (Note 2)	*9,145,732*	3,596,611	3,311,012
	78,893,657	16,541,459	15,392,544
Net operating income	*21,629,777*	8,344,316	7,516,536
Other income:			
Interest capitalized during construction	*773,981*	768,843	136,533
Interest and dividends	*703,874*	237,544	46,032
Gain on purchase of long-term debt — net	*379,187*	36,555	35,156
Miscellaneous	*614,954*	224,874	169,656
	2,471,996	1,267,816	387,377
	24,101,773	9,612,132	7,903,913
Income deductions:			
Interest on long-term debt	*8,804,339*	4,306,496	3,020,915
Interest on loan from parent company	*262,500*	—	615,872
Other interest	*707,588*	38,577	248,263
Debt discount and expense amortized	*206,472*	99,675	77,912
Expenses relating to issue of common shares	*—*	—	18,139
	9,980,899	4,444,748	3,981,101
	14,120,874	5,167,384	3,922,812
Minority interest in acquired companies	*1,226,015*	—	—
Net earnings from services and other income before extraordinary items	*12,894,859*	5,167,384	3,922,812
Extraordinary items:			
Gain on sale of land and recovery of provision for loss on investment	*183,463*	175,000	—
Net earnings (Note 10)	*$ 13,078,322*	5,342,384	3,922,812

(See accompanying notes.)

STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

	Year ended December 31,		
	Combined (Note 1)	Consolidated	
	1971	1971	1970
Funds provided by:			
Operations:			
Net earnings	*$13,078,322*	5,342,384	3,922,812
Add depreciation and other charges, less credits, not involving cash outlay	*10,796,163*	3,671,486	3,566,654
	23,874,485	9,013,870	7,489,466
Proceeds from issue of long-term debt less expenses of issue	*9,979,722*	9,979,722	8,592,452
Proceeds from issue of common shares	—	—	8,867,040
Reduction in investments not having market quotations	*1,040,875*	1,040,875	—
Decrease in accounts receivable due beyond one year	*451,402*	—	—
Contributions for extensions to plant - net	*1,406,238*	652,536	186,857
Proceeds from disposal of fixed assets	*680,841*	306,780	440,294
Other	*35,830*	13,795	28,386
Total funds provided	*37,469,393*	21,007,578	25,604,495
Funds applied to:			
Additions to fixed assets	*39,658,359*	28,146,423	13,322,435
Reduction of long-term debt	*3,749,223*	1,849,695	217,250
Dividends of Canadian Utilities, Limited	*2,573,621*	2,573,621	2,071,153
Dividends of acquired companies	*5,969,524*	—	—
Purchase of investments	*60,714*	51,581	36,485
Reduction of consumer deposits	*3,136,388*	317,382	—
Increase in deferred expense	*595,651*	400,000	—
Other	*145,124*	49,117	38,862
Total funds applied	*55,888,604*	33,387,819	15,686,185
Increase (decrease) in working capital	*$(18,419,211)*	(12,380,241)	9,918,310

(See accompanying notes.)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31, 1971	1970
Balance at beginning of year	**$17,727,794**	15,876,135
Add net earnings	**5,342,384**	3,922,812
	23,070,178	19,798,947
Deduct dividends:		
5% Cumulative redeemable preferred shares	**200,000**	200,000
Cumulative redeemable preferred shares:		
4¼% series	**63,750**	63,750
6% series	**300,000**	300,000
Common shares	**2,009,871**	1,507,403
	2,573,621	2,071,153
Balance at end of year	**$20,496,557**	17,727,794

(See accompanying notes.)

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1971

1. Basis of combination and consolidation:

On January 5, 1972 the company acquired, by the issuance of its shares as set out below, the interests of International Utilities Corporation in the following companies:

	Percentage ownership of equity shares	Percentage ownership of preferred shares
Canadian Western Natural Gas Company Limited	87.7%	—
Northwestern Utilities, Limited	100 %	—
Northland Utilities Limited and subsidiaries	100 %	100%

(Herein referred to as the acquired companies.)

The acquisition of the companies involved the following transactions:

	Northwestern Utilities, Limited	Canadian Western Natural Gas Company Limited	Northland Utilities Limited	Total
Consideration:				
1,105,000 common shares	$39,780,000	—	—	39,780,000
1,560,380 $1.25 cumulative redeemable convertible second preferred shares of the par value of $20 each	—	31,207,600	—	31,207,600
226,732 common shares	—	—	8,162,352	8,162,352
Total consideration	39,780,000	31,207,600	8,162,352	79,149,952
Deficiency (excess) of value of shares of acquired companies after giving effect to the plan of corporate restructuring and acquisition over underlying net book value of those companies attributable to International Utilities Corporation	(12,946,530)	(4,668,219)	47,387	(17,567,362)
Net assets at book value to acquired companies at December 31, 1971	$ 26,833,470	26,539,381	8,209,739	61,582,590

	Northwestern Utilities, Limited	Canadian Western Natural Gas Company Limited	Northland Utilities Limited
Securities issued on corporate restructuring and acquisition as a percentage of total securities outstanding:			
Common shares	43.95%	—	9.02%
Cumulative redeemable convertible second preferred shares	—	100%	—

A value of $36 per share has been attributed to the common shares of Canadian Utilities, Limited issued as aforesaid to International Utilities Corporation.

The excess of the cost of the shares of the acquired companies (all acquired from International Utilities Corporation) over the underlying net book values, after giving effect to the plan of corporate restructuring and acquisition, amounting to $17,567,362 has been included in the combined consolidated balance sheet at December 31, 1971 as a deduction from shareholders' equity.

Alberta Power Limited, a wholly-owned subsidiary of Canadian Utilities, Limited, was incorporated under the laws of Canada in 1971. As of January 1, 1972 Canadian Utilities, Limited transferred its undertaking, property and assets (exclusive of its shareholdings in the acquired companies) to this company in exchange for 105,000 5⅝% cumulative redeemable preferred shares of the par value of $100 each of Alberta Power Limited issued at par and 17,297,500 common shares of the par value of $1 each of that company issued at par plus a premium equal to the retained earnings of Canadian Utilities, Limited as of December 31, 1971 and the assumption by it of all liabilities, including bonds and debentures, of Canadian Utilities, Limited outstanding at the time of such transfer.

The accompanying combined consolidated balance sheet as of December 31, 1971 gives effect to the aforementioned transactions.

The combined statements of earnings and source and application of funds combine the consolidated results of operations and the consolidated source and application of funds respectively of the company and all of its subsidiaries including the acquired companies, for the year ended December 31, 1971 as though the acquisitions had taken place at the beginning of 1971.

The consolidated financial statements include only the accounts of the company and its subsidiaries, other than the acquired companies.

All material intercompany balances and transactions have been eliminated in both the combined and consolidated statements.

2. Amortization and depreciation:

Property, plant and equipment is amortized and depreciated in accordance with orders of the regulatory bodies as follows:

General plant (exclusive of transportation and moveable equipment) on a straight line basis at effective rates from 2% to 5% per annum on the gross cost of the plant at the preceding December 31, less contributions for extensions to plant at that date.

Natural gas and underground storage facilities at the rate of 1½% per annum on cost at preceding December 31, plus an amount based on unit withdrawals.

Other plant at various rates based on the estimated lives of the assets.

3. Preferred shares:

Authorized January 1, 1972 (See Note 4):

40,000 5% cumulative redeemable preferred shares of the par value of $100 each.

150,000 series preferred shares of the par value of $100 each, issuable in series, of which 15,000 shares have been designated as cumulative redeemable preferred shares, 4¼% series and 50,000 shares have been designated as cumulative redeemable preferred shares, 6% series.

1,780,000 $1.25 cumulative redeemable convertible second preferred shares of the par value of $20 each, convertible into .5 common shares up to January 15, 1982 and into .4 common shares up to January 15,1992 and having one vote in respect of each two shares. The conversion rates are subject to adjustment under certain circumstances.

Issued:

Issued and redeemable at the option of the company on thirty days' notice:

40,000 shares 5% (redeemable at $104 per share)	$ 4,000,000
15,000 shares 4¼% series (redeemable at $102.50 per share)	1,500,000
50,000 shares 6% series (redeemable at $105 per share on or before February 1, 1972, thereafter reducing at various dates to a minimum redemption price of $101 per share)	5,000,000
Issued and outstanding, December 31, 1971	10,500,000
Issued and non-redeemable up to January 15, 1982 (unless the number of shares outstanding is equal to or less than 75,000), thereafter redeemable at the option of the company on thirty days' notice at $20 per share:	
1,560,380 shares, $1.25 — issued January 5, 1972 in exchange for 1,560,380 ordinary shares of Canadian Western Natural Gas Company Limited or 87.7% of the outstanding shares thereof (Note 1)	31,207,600
	$41,707,600

4. Common shares:

Authorized January 1, 1972:

5,000,000 common shares without nominal or par value

Issued:

	Number of shares	Value of shares
Issued to December 31, 1971	1,182,274	$17,297,500
Issued January 5, 1972 in exchange for all the outstanding common shares of Northwestern Utilities, Limited (Note 1)	1,105,000	39,780,000
Issued January 5, 1972 in exchange for all the outstanding common and preferred shares of Northland Utilities Limited (Note 1)	226,732	8,162,352
	2,514,006	$65,239,852

On January 1, 1972 Canadian Utilities, Limited obtained supplementary letters patent, extending the objects of the company to make them consistent with those of a holding company and increasing the authorized capital of the company by the creation of (i) 1,780,000 $1.25 cumulative redeemable convertible second preferred shares of the par value of $20 each and (ii) 3,500,000 additional common shares without nominal or par value ranking in all respects on a parity with the 1,500,000 issued and unissued common shares of the company.

The company has reserved 1,039,980 common shares for issue as follows:

In connection with share purchase warrants outstanding exercisable at a price of $36 per share (price is subject to adjustment in certain circumstances). The warrants expire May 15, 1978	149,980
In connection with the $1.25 cumulative redeemable convertible second preferred shares	890,000
	1,039,980

5. Minority interest:

Minority interest consists of the following:

Northwestern Utilities, Limited:	
105,000 4% cumulative redeemable preference shares of the par value of $100 each	$10,500,000
Canadian Western Natural Gas Company Limited:	
275,410 4% cumulative redeemable preference shares of the par value of $20 each	5,508,200
200,000 5½% cumulative redeemable preference shares of the par value of $20 each	4,000,000
12.3% interest in equity	3,735,289
	$23,743,489

6. Long-term debt:

Long-term debt is summarized as follows:

	Combined Consolidated	Consolidated
Alberta Power Limited (Note 1):		
(Obligations of Canadian Utilities, Limited at December 31, 1971)		
First mortgage sinking fund bonds:		
Series A — 3-1/8%, due June 1, 1972	$ 1,457,500	
Series B — 3-2/5%, due December 1, 1974	461,250	
Series C — 3-2/5%, due December 1, 1975	1,980,000	
Series D — 4-1/4%, due November 1, 1979	3,520,000	
Series E — 4-1/8%, due April 1, 1981	3,251,000	
Series F — 5-1/2%, due December 1, 1986	5,000,000	
Series G — 5-5/8%, due June 1, 1990	12,000,000	
Series H — 6-1/2%, due February 1, 1992	8,000,000	
Sinking fund debentures:		
Series A — 7-1/4%, due May 15, 1988	14,750,000	
Series B — 9-5/8%, due December 15, 1991	9,000,000	
Series C — 8%, due June 1, 1976	10,000,000	
	69,419,750	69,419,750
Canadian Western Natural Gas Company Limited:		
First mortgage sinking fund bonds:		
Series B — 5-3/4%, due February 1, 1982	4,447,000	
Series C — 5-3/8%, due April 1, 1983	3,009,000	
Series D — 5-5/8%, due May 1, 1989	4,250,000	
Series E — 7%, due June 15, 1992	6,440,000	
Sinking fund debentures:		
9-3/4% due December 1, 1990	10,000,000	
	28,146,000	
Northwestern Utilities, Limited:		
First mortgage sinking fund bonds:		
Series E — 3-5/8%, due December 15, 1975	1,540,000	
Series F — 4-3/4%, due January 15, 1979	1,827,000	
Series G — 5-3/8%, due April 15, 1983	4,626,000	
Series H — 5-3/4%, due March 1, 1988	9,113,000	
Series I — 6-1/2%, due May 1, 1992	4,480,000	
Series J — 9-3/4%, due December 15, 1994	7,584,000	
	29,170,000	
Northland Utilities Limited:		
First mortgage sinking fund bonds:		
Series B — 5%, due February 1, 1973	624,000	
Series C — 5-3/4%, due May 1, 1977	632,500	
Series D — 5-3/4%, due December 1, 1978	670,000	
Series E — 6-1/4%, due October 15, 1985	3,448,000	
	5,374,500	
Total long-term debt	132,110,250	
Deduct current maturities and cash held by trustees	2,796,378	1,561,250
Long-term debt less current maturities and cash	$129,313,872	67,858,500

The long-term debt outstanding and current maturities thereof are stated after deducting bonds and debentures which have been purchased by the companies and are held for future sinking fund payments and excluding requirements which may be satisfied by certification of property additions.

Instalments of long-term debt, excluding requirements which may be satisfied by certification of property additions and after deducting bonds and debentures which have been purchased as described in the preceding paragraph, maturing in each of the calendar years 1972, 1973, 1974, 1975 and 1976 amount to $2,782,500, $3,345,561, $3,403,250, $5,370,500 and $12,708,500 respectively on a combined consolidated basis and $1,561,250, $408,750, $993,750, $2,334,000 and $10,507,000 respectively on a consolidated basis.

The trust deeds and indentures of the acquired companies and Alberta Power Limited securing first mortgage bonds and sinking fund debentures place limitations on these companies and their subsidiaries including restrictions on the payment of dividends on their common and ordinary shares and upon the redemption or repayment of their preferred, preference, common and ordinary shares. To December 31, 1971 all of the conditions of the trust deeds and indentures had been met.

7. Income taxes:

In fixing rates, except for the matter referred to in the succeeding paragraph, the Public Utilities Board for the Province of Alberta permits the utility companies to recover only taxes payable currently and accordingly, to the extent that capital cost allowances are claimed in excess of the depreciation recorded in the accounts, there has been a related reduction in the amount of income taxes otherwise payable.

The companies are permitted, however, to record deferred tax credits in respect to the acquisition of natural gas rights for their utility systems, but, at the specific requests of the major communities served, they have agreed with effect from January 1, 1967 to amortize such deferred tax credits by credit to the annual provisions for income taxes over a ten-year period.

The effect of the reductions in the combined annual provisions for income taxes, contained in the combined statement of earnings resulting from the use of the methods referred to in the two preceding paragraphs as compared to the annual provisions on a tax allocation basis is that provisions have been reduced by $2,100,000. The annual provision in the consolidated statement of earnings has been reduced by $1,320,000 ($925,000 in 1970). The cumulative amount of deferred tax credits to December 31, 1971 on a combined consolidated basis is $17,900,000 of which $1,774,595 has been recorded in the accounts. The cumulative amount of deferred tax credits to December 31, 1971 on a consolidated basis is $8,920,000.

8. Commitments:

Commitments under contracts pertaining to construction of new plant amounted to approximately $12,110,000 at December 31, 1971 on a combined consolidated basis and $10,300,000 on a consolidated basis.

The companies have in effect a pension plan covering substantially all of their employees. At December 31, 1971 the aggregate unfunded past service liability, being amortized over periods not exceeding twenty years, amounted to approximately $2,931,000 on a combined consolidated basis and $693,000 on a consolidated basis.

9. Remuneration of directors and officers of Canadian Utilities, Limited:

During the year ended December 31, 1971 the company paid aggregate remuneration of $16,250 to 13 directors as directors ($15,000 to 16 directors in 1970) and $174,925 to 12 officers as officers ($198,479 to 15 officers in 1970). Three officers were also directors in 1971, four in 1970.

10. Net earnings per common share:

	Combined (Note 1)	**Consolidated**	
	1971	**1971**	1970
Basic:			
Net earnings from services and other income	***$4.13***	**3.89**	3.71
Extraordinary items:			
Gain on sale of land and recovery of provision for loss on investment	***.07***	**.15**	—
Net earnings	***$4.20***	**4.04**	3.71
Fully diluted:			
Net earnings from services and other income	***$3.64***	**3.61**	3.39
Extraordinary items:			
Gain on sale of land and recovery of provision for loss on investment	***.06***	**.14**	—
Net earnings	***$3.70***	**3.75**	3.39

The calculation of net earnings per common share on a combined basis assumes the common and second preferred shares issued on January 5, 1972 had been in existence throughout 1971.

In the fully diluted earnings per common share calculation, the assumption is made that warrants for the purchase of 149,980 common shares at $36 had been exercised at the beginning of each year and that the funds derived therefrom had been invested to produce an annual rate of 8% before applicable income taxes. In addition, the calculation on a combined basis assumes conversion of the second preferred shares at the beginning of 1971.

11. Subsequent events:

On January 7, 1972 Canadian Utilities, Limited made an offer to acquire the remaining 219,620 ordinary shares of Canadian Western Natural Gas Company Limited not owned by it in exchange for its $1.25 cumulative redeemable convertible second preferred shares on a one-for-one basis. To February 4, 1972, a total of 136,317 ordinary shares had been deposited in acceptance of the offer.

The company has entered into an agreement dated February 9, 1972 with underwriters for the sale to them of $30,000,000 principal amount of 8⅜% Debentures 1972 Series (unsecured) to mature March 1, 1992 at an aggregate price of $29,460,000. The net proceeds to be received by the company are $29,385,000 after deducting expenses of issue, estimated at $75,000.

CANADIAN UTILITIES, LIMITED

LITHOGRAPHED IN CANADA

summer recess. Shareholders of this company will continue to receive a dividend tax credit, although it will be in a modified form, under the provisions contained in Bill C-259. The proposed tax laws have turned out to be consistent with the representations made by this company in that they do not include the specific provisions of the White Paper which had caused special concern for shareholders of utility companies as compared to shareholders of other enterprises.

JOHN E. MAYBIN
Chairman

Edmonton, Alberta,
August 9, 1971.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Six Months Ended June 30 1971	1970
Funds provided by:		
Operations:		
Net earnings	$ 2,902,089	2,225,406
Depreciation and other non cash items	2,017,198	1,816,255
	4,919,287	4,041,661
Proceeds from issue of debentures	10,000,000	—
Proceeds from disposal of fixed assets	39,294	134,907
Contributions for extensions received (net)	223,980	148,581
	$15,182,561	4,325,149
Funds applied to:		
Additions to fixed assets	$ 7,289,803	4,897,109
Payments of dividends	1,286,885	1,035,652
Reduction of long term debt	1,770,500(a)	109,500
Increase (decrease) in working capital	4,811,549	(1,777,234)
Other (net)	23,824	60,122
	$15,182,561	4,325,149

(a) Includes $1,457,500 Series "A" First Mortgage Sinking Fund Bonds maturing June 1, 1972.

INTERIM REPORT

JUNE 30, 1971

canadian utilities, limited

ELECTRIC POWER SERVICE

CANADIAN UTILITIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

	Six Months Ended June 30 1971	Six Months Ended June 30 1970
Sales of electric energy	$12,973,751	11,556,335
Operating expenses:		
Operating	4,202,852	3,815,187
Maintenance	785,035	583,773
Taxes — income	983,800	1,011,315
Taxes — other than income	569,000	444,600
Depreciation	1,869,000	1,708,295
	8,409,687	7,563,170
Net operating income	4,564,064	3,993,165
Other income:		
Interest during construction	168,479	57,105
Interest and dividends	103,977	25,256
Miscellaneous	111,720	109,534
	384,176	191,895
Income deductions:		
Interest on long term debt	1,988,919	1,493,038
Other interest	8,570	427,660
Debt discount and expenses amortized	48,662	38,956
	2,046,151	1,959,654
Net earnings	$ 2,902,089	2,225,406
Dividends paid on preferred shares	$ 281,950	281,950
Common shares outstanding end of period	1,182,274	886,706
Earnings per common share	$ 2.22	2.19

Note: The interim figures contained in this report have not been examined by the Company's Auditors.

To the Shareholders:

Net earnings for the first six months of 1971 were $2,902,089, an increase of $676,683 over the earnings in the corresponding period of 1970. After deducting preferred dividend payments, earnings were equivalent to $2.22 per share on the 1,182,274 common shares outstanding during the first six months of 1971 as compared to $2.19 per share on 886,706 shares in the first half of 1970.

Sales made directly to consumers within the company's service area in the first half of the year were 504 million kilowatt hours. Total sales, including sales to Northland Utilities Limited, in the same period were 635 million kilowatt hours, a 20% increase over sales in the corresponding period in 1970.

Revenue from sales of electric energy in the first half of 1971 increased to $12,973,751, representing a gain of $1,417,416, or 12%, over the first half of the previous year.

Operating expense, including income and other taxes and depreciation, totalled $8,409,687, which was $846,517, or 11%, higher than in the first half of 1970. The $983,800 income tax charge made against operations represents a $27,515 reduction from the income tax provision reported in the first half of last year. Income taxes are not expected to be as large in 1971 as in 1970 due to increased capital cost allowances on fixed assets.

Common share dividends of 85 cents for the first half of the year were the same as in 1970, but since 295,568 more shares were outstanding this year as compared to the same period a year ago, the total common dividend payment increased by $251,233 to $1,004,935.

Additions to fixed assets amounted to $7,289,803 by June 30, 1971. Larger expenditures are anticipated in the last half of the year as construction continues at the H. R. Milner Generating Station at Grande Cache, with capital expenditures for 1971 expected to be in the order of 27 million dollars. Arrangements for a private placement of 10 million dollars of 8%, 5 year debentures were completed in June.

A tax reform bill will be considered by Parliament when it reconvenes following the